

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Gratiot County	County Gratiot
Fiscal Year End 9/30/2007	Opinion Date 3/4/2008	Date Audit Report Submitted to State 3/24/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

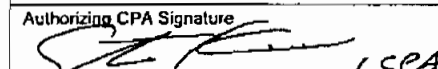
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic, CPA	License Number 1101022020

**Gratiot County, Michigan**  
**FINANCIAL STATEMENTS**  
**September 30, 2007**

Gratiot County, Michigan

September 30, 2007

BOARD OF COMMISSIONERS

Linton Chapin	Chairperson
Mark Knowles	Vice Chairperson
Roger Cook	Commissioner
David Eldridge	Commissioner
Jan Bunting	Commissioner
Roland Merignac	Commissioner

ADMINISTRATION AND OTHER ELECTED OFFICIALS

Brian Smith	Administrator
Mary Sullivan	Treasurer
Carol Vernon	Clerk
Janet Davis	Register of Deeds
Brian Denman	Drain Commissioner
Keith Kushion	Prosecuting Attorney
Robert Beracy	Sheriff

Gratiot County, Michigan

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Principals

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Gratiot County, Michigan as of and for the year ended September 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Gratiot County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Gratiot County Road Commission, which represents 77% and 79% of the total assets and revenues, respectively, of the component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the amounts included for the Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the audit of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Gratiot County, Michigan as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2008 on our consideration of Gratiot County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Gratiot County's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 4, 2008

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of Gratiot County's (the County's) financial performance and position, providing an overview of the activities for the fiscal year ending September 30, 2007. This analysis should be read in conjunction with the *Independent Auditors Report*, beginning on page i of this report, and with the County's financial statements, which follow this section. Certain limited financial information is presented with respect to the Gratiot County Road Commission in the Management Discussion and Analysis. The reader should refer to the Road Commission's separately issued financial statements for more detailed information.

FINANCIAL HIGHLIGHTS

Government-wide:

- The assets of the County exceeded its liabilities at the close of fiscal year 2007 by \$12,438,851 (net assets). Of this amount, \$5,239,431 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. The governments total net assets increased by \$986,773 (excluding component units) from the prior fiscal year.
- As the close of the fiscal year, the County's governmental activities funds reported combined net assets of \$8,302,314, an increase of \$1,176,507 from the prior fiscal year.
- At the close of the fiscal year, the County's business-type activities funds reported combined net assets of \$4,136,537, a decrease of \$189,734 from the prior fiscal year.
- At the close of the fiscal year, the County's component units reported combined net assets of \$34,374,485, an increase of \$1,733,645.

Fund Level:

- At the close of the fiscal year, the County's governmental funds reported combined ending fund balances of \$4,516,739, an increase of \$875,336 in comparison with the prior year. Approximately 85 percent of this amount, \$3,833,348, is available for spending at the government's discretion (unreserved, undesignated fund balance).
- The General Fund realized \$30,632 less in revenues and other financing sources than anticipated for the fiscal year. Also, General Fund operations also expended \$193,915 less than appropriated.

Capital and Long-term Debt Activities:

- The primary government had \$241,938 in new lease obligations during the fiscal year.
- The total long-term debt for the primary government was \$5,213,921 with a net reduction of \$253,913 from the prior year.
- The Drainage Districts issued \$815,894 in new long-term notes.
- The total long-term debt for the component units (Drainage Districts and Board of Public Works only) was \$2,676,941 with a net increase of \$301,820 from the prior year.
- The long-term debt for the Road Commission was \$311,972.
- The County remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government was \$571,104 and included such purchases as the vehicles for the Sheriff's Department, tractors for the Parks and Recreation, a Windows server for IM Department, used truck for Animal Control, and repairs made to Courthouse building.



County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report of the County consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis*, and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and proprietary funds.

**Government-wide Financial Statements (Reporting the County as a Whole)**

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the County as a whole, and about its activities. Their purpose is to assist in answering the question, Is the County, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all the County's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the County's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the County's net assets changed during fiscal year 2007. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- ***Governmental Activities*** - Most of the County's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the County's general government departments, law enforcement, the courts, the Board of Commissioner operations, and other countywide elected official operations are reported under these activities. This also includes the special revenue funds such as the Commission on Aging and Friend of the Court Funds.
- ***Business-type Activities*** - These activities operate like private businesses. The County charges fees to recover the cost of the services provided. The Gratiot County Jail Commissary Fund and the Delinquent Tax Fund are examples of these activities.
- ***Discretely Presented Component Units*** - Discretely Presented Component units are legally separate organizations for which the Board of Commissioners appoints a majority of the organization's policy board and there is a degree of financial accountability to the County. Four organizations are included as component units: the Department of Public Works, the Road Commission for Gratiot County, the Central Dispatch Authority, and the Drainage Districts.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental funds; however depreciation expense is reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.
- Long-term liabilities, such as reserves for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Bond proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, it should be noted that the government-wide financial statements include the net value of the County's general capital assets such as buildings, land, cars, computer equipment etc. These values are not included in the fund financial statements.

**Fund Financial Statements (Reporting the County's Major Funds)**

The fund financial statements, which begin on page 3, provide information on the County's significant (major) funds, and aggregated nonmajor funds. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the County uses to keep track of specific sources of funding and spending for a particular purpose. State law or policy requires some separate funds, such as the Commission on Aging and Child Care Fund; other funds are required by bond or grant agreements, such as the Friend of the Court Fund. Funds are also utilized to track specific operations; these include the internal services funds (e.g., Fringe Benefit) as well as enterprise funds such as the Jail Commissary and Delinquent Tax.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for Gratiot County include the General Fund, the Revenue Sharing Reserve, and the Delinquent Tax Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The County includes detailed information on its nonmajor funds in other supplementary sections of this report.

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

The County's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the County's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the County's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).
- **Proprietary Funds** - Services for which the County charges customers (whether outside the County structure or a County department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Soil Erosion Inspection Fund. *Internal Service funds* report activities that provide supplies or service to the County's other operations, such as the Fringe Benefit Fund. Internal Service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary Funds** - The County acts as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The County's fiduciary activities are reported in separate statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 11. These funds, which include trust and agency funds and the Library (Penal Fines) Fund, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the County to fund its operations.

**Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 15 of this report.

**Required Supplementary Information**

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

**Other Supplementary Information**

Other Supplementary Information includes combining financial statements for nonmajor governmental, proprietary, and fiduciary funds. These funds, except for the fiduciary funds, are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

As previously stated, Gratiot County's combined net assets were \$12,438,851 at the end of this fiscal year's operations. The net assets of the governmental activities were \$8,302,314; the business type activities were \$4,136,537.

Gratiot County Net Assets FY ending 2007 and ending FY 2006

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 5,207,480	\$ 4,370,165	\$ 4,211,596	\$ 4,403,300	\$ 9,419,076	\$ 8,773,465
Capital Assets	<u>8,796,675</u>	<u>8,776,225</u>	<u>-</u>	<u>-</u>	<u>8,796,675</u>	<u>8,776,225</u>
<b>Total Assets</b>	<b><u>\$ 14,004,155</u></b>	<b><u>\$13,146,390</u></b>	<b><u>\$ 4,211,596</u></b>	<b><u>\$ 4,403,300</u></b>	<b><u>\$18,215,751</u></b>	<b><u>\$ 17,549,690</u></b>
Current Liabilities	\$ 997,676	\$ 928,882	\$ 75,059	\$ 77,029	\$ 1,072,735	\$ 1,005,911
Other Liabilities	<u>4,704,165</u>	<u>5,091,701</u>	<u>-</u>	<u>-</u>	<u>4,704,165</u>	<u>5,091,701</u>
<b>Total Liabilities</b>	<b><u>\$ 5,701,841</u></b>	<b><u>\$ 6,020,583</u></b>	<b><u>\$ 75,059</u></b>	<b><u>\$ 77,029</u></b>	<b><u>\$ 5,776,900</u></b>	<b><u>\$ 6,097,612</u></b>
Net Assets Invested in Capital Assets (Net of related debt)	\$ 4,194,876	\$ 3,915,398	\$ -	\$ -	\$ 4,194,876	\$ 3,915,398
Restricted	3,004,544	1,064,247	-	-	3,004,544	1,064,247
Unrestricted	<u>1,102,894</u>	<u>2,146,162</u>	<u>4,136,537</u>	<u>4,326,271</u>	<u>5,239,431</u>	<u>6,472,433</u>
<b>Total Net Assets</b>	<b><u>\$ 8,302,314</u></b>	<b><u>\$ 7,125,807</u></b>	<b><u>\$ 4,136,537</u></b>	<b><u>\$ 4,326,271</u></b>	<b><u>\$12,438,851</u></b>	<b><u>\$ 11,452,078</u></b>

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the County's net assets changed during the fiscal year:

**Gratiot County's Changes in Net Assets for the Fiscal Year Ending September 30, 2007**

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Revenues</b>						
Charges for Services	\$ 3,419,680	\$ 3,169,527	\$ 285,601	\$ 317,281	\$ 3,705,281	\$ 3,486,808
Grants & Contributions	2,596,791	2,773,059	-	-	2,596,791	2,773,059
General Revenues						
Property Taxes	7,529,731	6,718,065	-	-	7,529,731	6,718,065
Investment Earnings	123,585	50,103	135,358	136,219	258,943	186,322
Miscellaneous	97,155	42,521	35,396	30,452	132,551	72,973
<b>Total Revenues</b>	<b>13,766,942</b>	<b>12,753,275</b>	<b>456,355</b>	<b>483,952</b>	<b>14,223,297</b>	<b>13,237,227</b>
<b>Expenses</b>						
General Government	5,165,211	5,197,647	-	-	5,165,211	5,197,647
Public Safety	3,639,795	3,516,854	-	-	3,639,795	3,516,854
Public Works	-	653	-	-	-	653
Health and Welfare	3,607,292	3,588,035	-	-	3,607,292	3,588,035
Community and Economic Dev.	204,249	156,761	-	-	204,249	156,761
Recreation & Cultural	257,034	319,082	-	-	257,034	319,082
Interest on long- term debt	214,305	221,225	-	-	214,305	221,225
Delinquent Tax	-	-	444	50	444	50
Other	-	-	148,194	108,096	148,194	108,096
<b>Total Expenses</b>	<b>13,087,886</b>	<b>13,000,257</b>	<b>148,638</b>	<b>108,146</b>	<b>13,236,524</b>	<b>13,108,403</b>
Excess (deficiency)	679,056	( 246,982 )	307,717	375,806	986,773	128,824
Transfers	497,451	1,105,000	( 497,451 )	( 1,105,000 )	-	-
<b>Increase (decrease) in Net Assets</b>	<b>1,176,507</b>	<b>858,018</b>	<b>( 189,734 )</b>	<b>( 729,194 )</b>	<b>986,773</b>	<b>128,824</b>
Restated Net Assets - Beginning	7,125,807	6,267,789	4,326,271	5,055,465	11,452,078	11,323,254
<b>Net Assets - Ending</b>	<b>\$ 8,302,314</b>	<b>\$ 7,125,807</b>	<b>\$ 4,136,537</b>	<b>\$ 4,326,271</b>	<b>\$ 12,438,851</b>	<b>\$ 11,452,078</b>

**Governmental Activities:**

The result of fiscal year 2007 governmental activity was an increase of \$1,176,507 in net assets, to \$8,302,314. Of the total governmental activities' net assets, \$4,194,876 is invested in capital assets less related debt, \$3,004,544 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the County government. The balance of \$1,102,894 is listed as unrestricted, having no legal commitment.

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

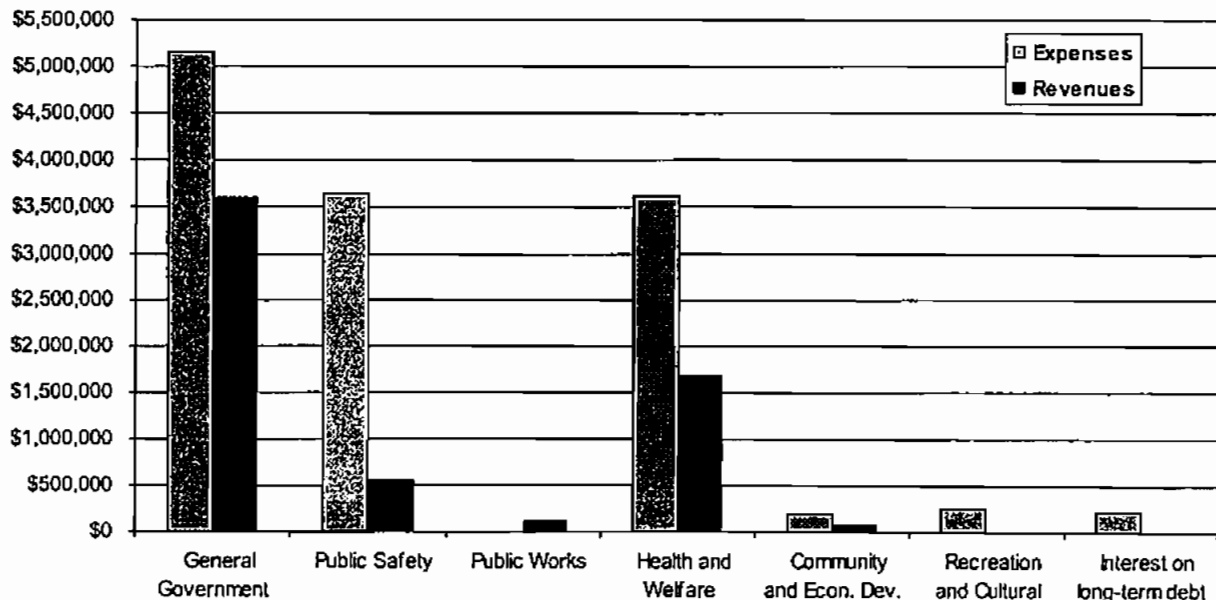
**Revenues:**

The three largest revenue categories were property taxes at 55% (increase of 2% from the prior year), charges for services at 25% (no percentage change from the prior year) and grants and contributions at 19% (decrease of 3% from the prior year). The County levied four property tax millages for the 2007 tax year, one being for general government operations at 5.5373 mills which is not assigned to any particular activity, the senior citizens millage at .6500 mills to finance the Commission on Aging, the road patrol millage at .4500 to finance the Road Patrol, and the parks millage at .3498 mills to finance the Parks Department. Charges for services, which reimburse the County for specific activities, are the second largest source of governmental activity revenue. Examples include District Court fees and services, Clerk's Office filing fees, Register of Deeds filing fees, and inmate telephone charges.

**Expenses:**

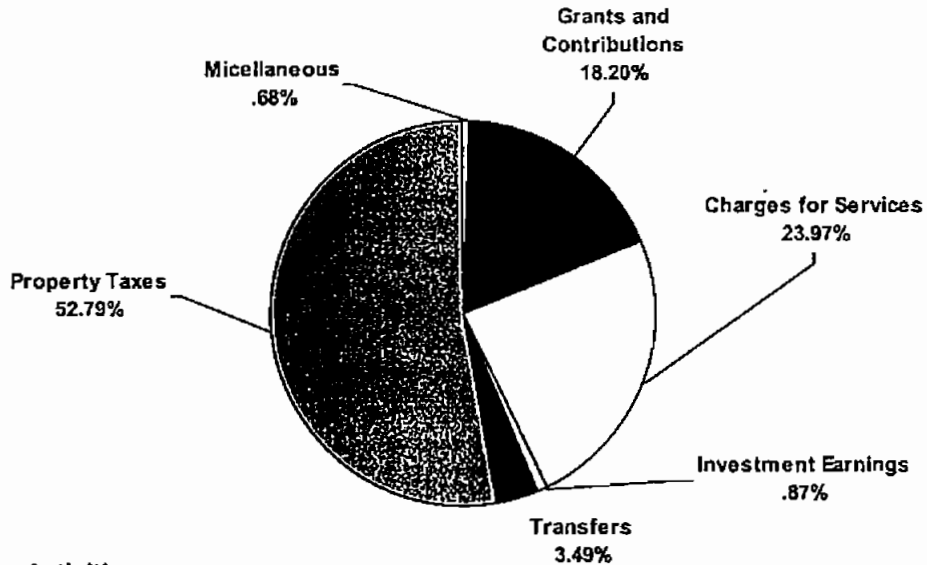
General government is the largest governmental activity, expending over \$5.10 million (a decrease of \$32,436) of the \$13 million total and includes offices such as District Court, Juvenile Court, Prosecuting Attorney, Board of Commissioners, Treasurer, Clerk, Register of Deeds, Elections and MSU Extension. Public Safety is the second largest governmental activity, expending over \$3.63 million (an increase of \$122,941). It includes the Sheriff, Animal Control, Emergency Services, and Jail operations. Health and Welfare is the third largest area, expending \$3.61 million (an increase of \$19,257), and includes the Medical Examiner, District Health, Mental Health, Veterans Affairs and Substance Abuse.

**Expenses and Program Revenues - Governmental Activities**



County of Gratiot  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

**Revenues By Source - Governmental Activities**

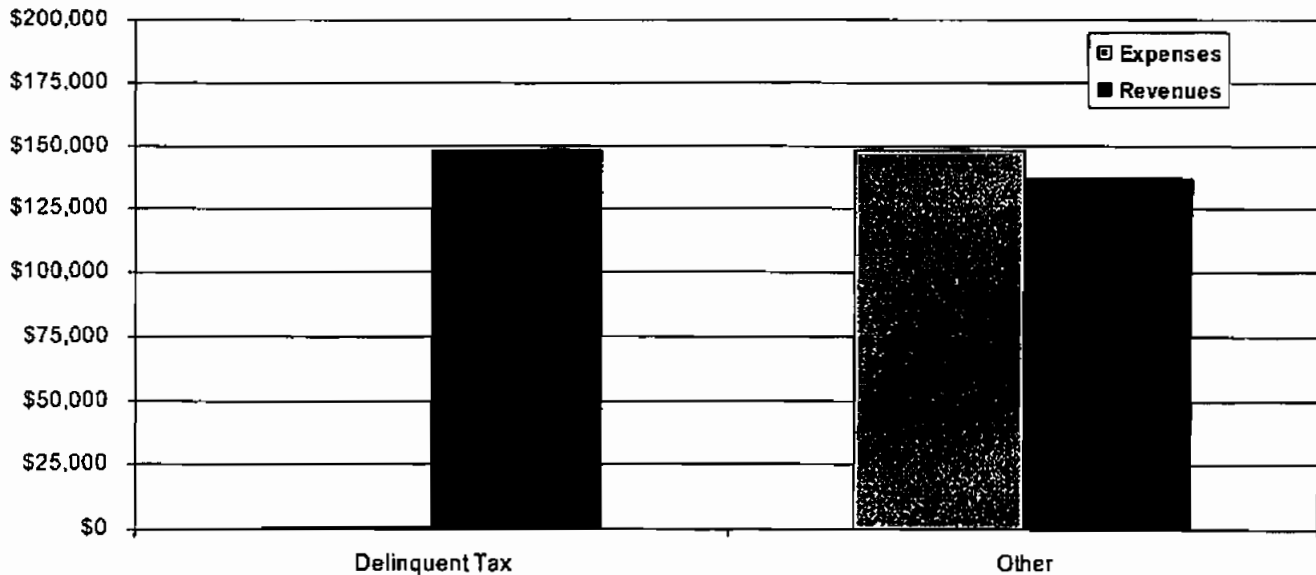


**Business-type Activities:**

Net assets in business-type activities decreased by \$189,734 during Fiscal Year 2007. The vast majority of this decrease was a result of the planned operating transfer of \$494,000 from the Delinquent Tax Fund surplus to the General Fund. Without this transfer, net assets would have increased by over \$300,000 in the business-type activities.

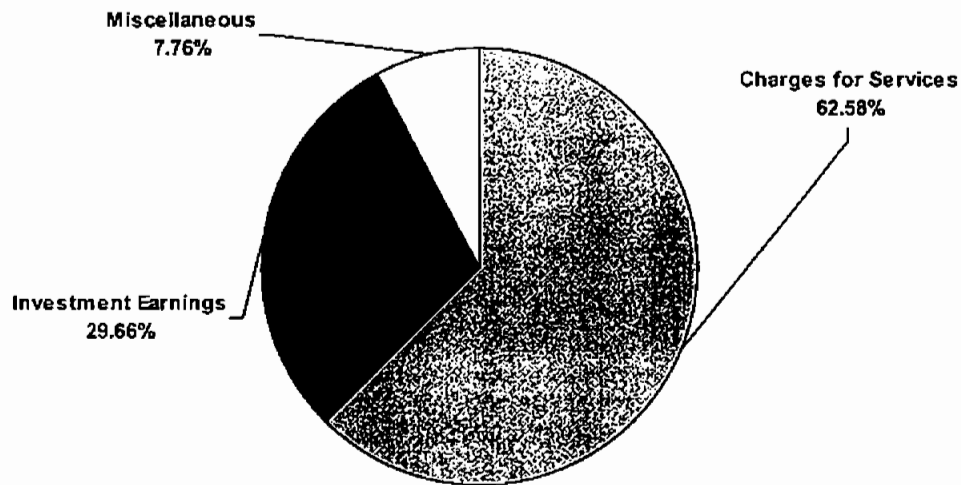
Of the total \$4.1 million of net assets in the business type activities, \$4.1 million is reported as unrestricted. However, it is important to note that although reported as unrestricted, many of these assets are anticipated to be designated through Board of Commissioners action to be spent on General Fund activities and self-funding of delinquent tax payments in future years.

**Expenses and Program Revenues - Business-type Activities**



County of Gratiot  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

**Revenues By Source - Business-type Activities**



**FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR AND NONMAJOR GOVERNMENTAL FUNDS**

As the County completed fiscal year 2007, its governmental funds reported *combined* fund balances of \$4,516,739, an increase of \$875,336. The net changes are summarized in the following chart:

	General Fund	Revenue Sharing Reserve	Nonmajor Governmental Funds
Fund Balance 9/30/06	\$1,164,204	\$ 1,042,941	\$ 1,434,258
Fund Balance 9/30/07	\$1,327,487	\$ 1,602,495	\$ 1,586,757
Net Change	\$ 163,283	\$ 559,554	\$ 152,499

The General Fund balance increased by \$163,283; this is mainly due to \$494,451 being transferred in to the General Fund from the Delinquent Tax Revolving Fund. The Revenue Sharing Reserve Fund was created by Public Act 357 of 2004, which shifts the General Fund county property tax collections from December to July over a three year period. During the time period, the County will levy 33% more each fiscal year and sets aside that amount into this fund. The County in turn draws an amount from the fund each year equal to the estimated State Revenue Sharing payment. The combined other nonmajor funds increased by \$152,499. This increase is mainly due to better departmental control over their budgets.

**General Fund:**

The General Fund is the chief operating fund of the County. Unless otherwise required by statute, contractual agreement or Board policy, all County revenues and expenditures are recorded in the General Fund. As of September 30, 2007, the General Fund reported a fund balance of \$1,327,487. The General Fund balance increased by \$163,283; this is mainly due to \$494,451 being transferred in to the General Fund from the Delinquent Tax Revolving Fund. Of the total fund balance, all but \$682,846 is reserved, designated or earmarked for specific purposes.



County of Gratiot  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

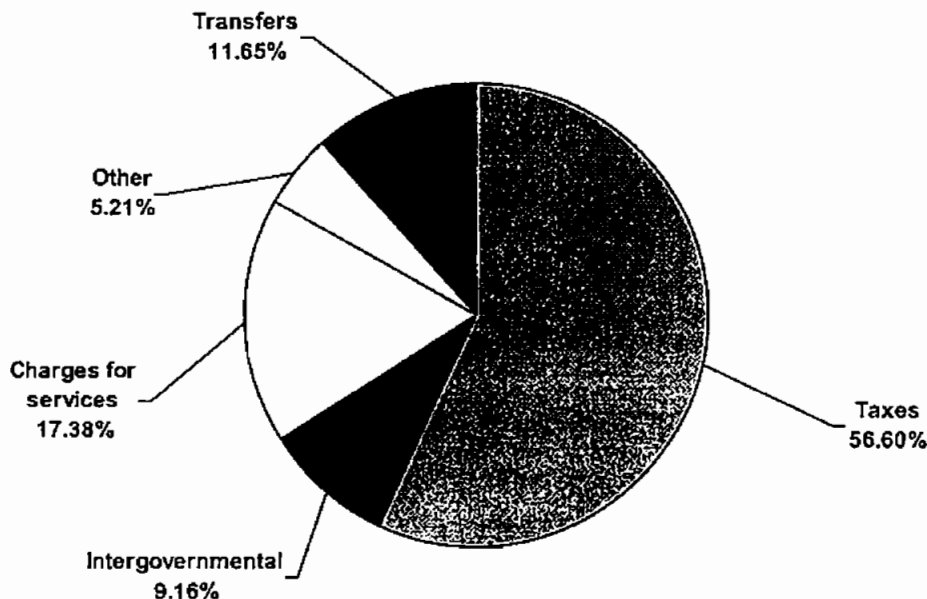
The General Fund fiscal year 2007 revenues exceeded fiscal year 2007 expenditures by \$1,965,782; however, the General Fund also supports the operations of other funds including the required transfer to the Revenue Sharing Reserve Fund, Child Care Fund, COPS Grant Fund, Jail/Health Building Debt Fund, Courthouse Renovation Debt Fund, and the Capital Improvement Fund. The County transfers in some of the Delinquent Tax Fund surplus and the allowed amount from the Revenue Sharing Reserve Fund to offset these transfers out.

**General Fund Budgetary Highlights:**

Gratiot County's budget is a dynamic document. Although adopted in September (prior to the start of the next fiscal year), the budget is frequently amended during the course of the fiscal year to reflect changing operational demands.

The County's amended revenue budget was increased by \$251,617 (2.3% above the original budget) during fiscal year 2007. Actual General Fund revenue and other financing sources totaled \$11,180,263, which was \$30,632 less than the final amended budget. Variations in individual revenue accounts continue to reflect the slow recovery for the state and local economy. Significantly, tax revenue increased by \$394,742 or 6.7% from the prior year. Transfers in decreased significantly from the prior year due to a decrease in the transfer in to \$494,451 from the Delinquent Tax Revolving Fund.

**Revenues By Source - General Fund**



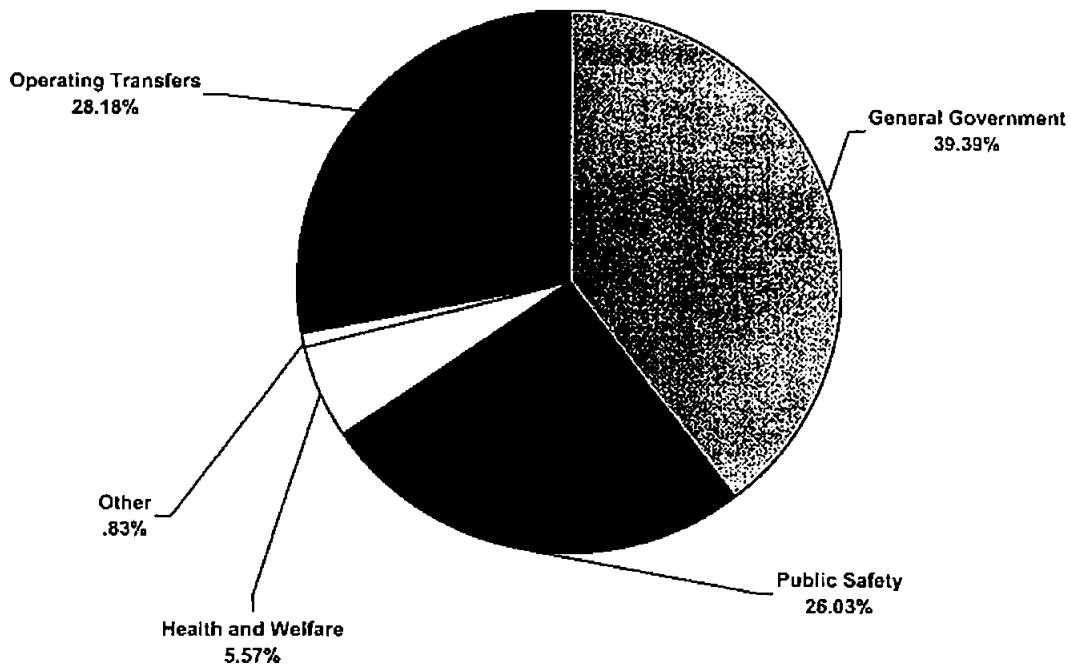
County of Gratiot  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

The County's expenditure budget was increased by \$251,617 (2.2% above the original budget) during fiscal year 2007.

Actual County expenditures for fiscal year 2007 were \$193,915 or 1.7% below the amended budget. This is due to several reasons including:

- \$80,239 less than planned for general government operations due to the fiscal discipline of the various county managers and elected officials.
- \$32,681 less than planned for public safety operations due to the fiscal discipline of the department heads and elected officials.

**Expenditures By Program Area - General Fund**



County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

**Revenue Sharing Reserve Fund:**

Until 2005, the County received revenue sharing payments from the State of Michigan under the State Constitution and the State Revenue Sharing Act of 1971, as amended (the "Revenue Sharing Act"). In anticipation of a continued budget deficit, in September 2004, Governor Granholm signed into law Act 356, Public Acts of Michigan, 2004 ("Act 356"), an amendment to the Revenue Sharing Act, and Act 357, Public Acts of Michigan, 2004 ("Act 357") an amendment to the General Property Tax Act. Act 356 and Act 357 accomplish the temporary elimination of approximately \$182.1 million in statutory revenue sharing payments to counties by creating a reserve fund paid for by the permanent advancement of the counties' property tax levy from December to July each year, beginning July 2005. Under Act 356 and Act 357, the additional county revenue generated from the accelerated levy will be placed in a reserve fund that each county would draw against in lieu of their annual revenue sharing payments. State revenue sharing payments to a county would resume in the first year in which a county's property tax revenue reserve is less than the amount the county would have otherwise received in state revenue sharing payments. Gratiot County transferred \$1,367,058 to this fund in 2007 and transferred back \$807,504 to the General Fund. The balance that remains in the Revenue Sharing Reserve Fund will be used in future years.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets** - At the end of Fiscal Year 2007 the County had invested \$8,796,675 and \$6,061,976 for the component units (excluding the Road Commission), net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was \$4,110,597 for the primary government. Depreciation charges and adjustments for the fiscal year totaled \$550,654 for the primary government and \$180,791 for the component units (excluding the Road Commission).

	<b><u>Governmental Activities</u></b>		<b><u>Component Unit Drains</u></b>		<b><u>Component Unit Central Dispatch</u></b>		<b><u>Total</u></b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Land	\$ 629,388	\$ 645,109	\$ -	\$ -	\$ -	\$ -	\$ 629,388	\$ 645,109
Const. in progress	189,922	-	793,587	184,044	-	-	983,509	184,044
Buildings, net	7,003,547	7,150,925	-	-	-	-	7,003,547	7,150,925
Equipment, net	738,576	870,903	23,439	32,229	156,650	-	918,665	903,132
Vehicles, net	235,242	109,288	10,866	18,511	-	-	246,108	127,799
Drains, net	-	-	5,077,434	4,668,456	-	-	5,077,434	4,668,456
Capital assets, net	<b><u>\$8,796,675</u></b>	<b><u>\$ 8,776,225</u></b>	<b><u>\$5,905,326</u></b>	<b><u>\$4,903,240</u></b>	<b><u>\$156,650</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$14,858,651</u></b>	<b><u>\$13,679,465</u></b>

**Long-term Debt** - As of September 30, 2007, the County had \$5,213,921 in bonds, notes and accumulated vacation and sick time outstanding for the primary government. Of this amount, \$4,484,694 is bonds with unlimited or limited taxing authority. This level of net bond obligation is \$376,133 less than the obligation recorded as of September 30, 2006. In addition, the County uses its full faith and credit (as a secondary obligator), to back the Board of Public Works and Drainage District component unit debt. The Drain Commission administers debt for various local drainage districts and water and sewer systems for local municipalities in Gratiot County. All drain debt is payable out of assessments against the drainage districts or by contractual agreements with local units of government.

County of Gratiot  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

**Outstanding Debt as of September 30, 2007:**

	<u>Restated Oct. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Sept. 30, 2007</u>
<b>Primary Government</b>				
Governmental Activities				
Direct County Obligations	\$ 4,860,827	\$ 241,938	\$ 500,966	\$ 4,601,799
Accumulated Comp. Absences	<u>607,007</u>	<u>459,595</u>	<u>454,480</u>	<u>612,122</u>
<b>Total Primary Government</b>	5,467,834	701,533	955,446	5,213,921
<b>Component Units</b>				
Road Commission				
Accumulated Comp. Absences	312,223	-	251	311,972
Board of Public Works				
Water and Sewer Bonds	445,000	-	40,000	405,000
Drainage Districts				
Drain Bonds and Notes	<u>1,930,121</u>	<u>815,894</u>	<u>474,074</u>	<u>2,271,941</u>
<b>Total Component Units</b>	<u>2,687,344</u>	<u>815,894</u>	<u>514,325</u>	<u>2,988,913</u>
<b>Total Reporting Entity</b>	<u><b>\$ 8,155,178</b></u>	<u><b>\$ 1,517,427</b></u>	<u><b>\$ 1,469,771</b></u>	<u><b>\$ 8,202,834</b></u>
<b>Debt Limit (10% of SEV)</b>				<b>\$ 121,087,900</b>
<b>Available Statutory Debt Limit</b>				<b>\$ 112,885,066</b>

Activity for the Component Units and Drain Funds during fiscal year 2007 included the issuance of \$815,894 in drainage district bonds and notes.

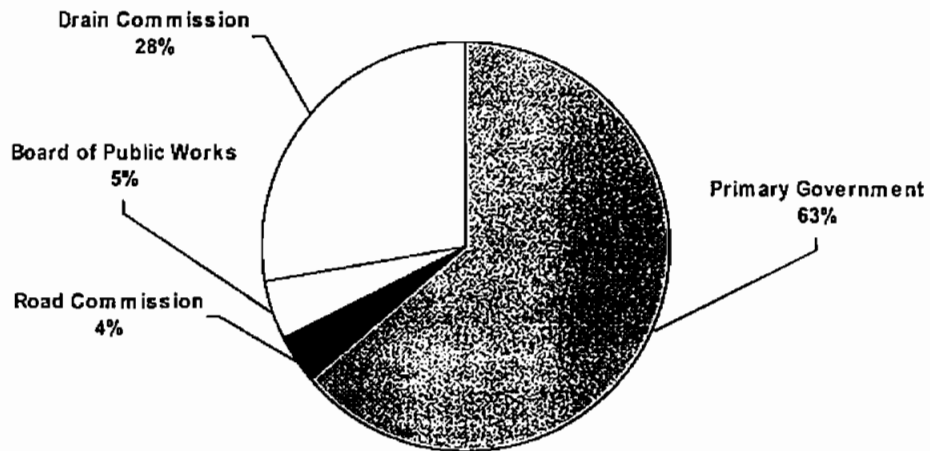
A more detailed discussion of the County's long-term debt obligations is presented in Note G to the financial statements.

**Limitations on Debt:**

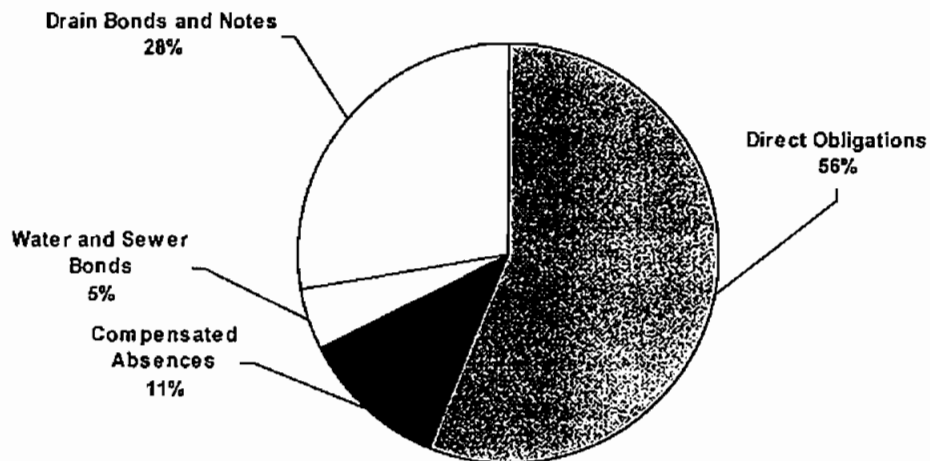
State statute limits the County's debt obligations to 10 percent of the current state equalized value (SEV). The County's SEV as of September 30, 2007 was \$1.210 billion; therefore the County's debt limitation was \$121 million. The County remains well below its legal debt limit by over \$112 million.

County of Gratiot  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

**Outstanding Long-Term Debt - By Unit**



**Outstanding Long-Term Debt - By Category**



**GRATIOT COUNTY GOVERNMENT ECONOMIC OUTLOOK:**

- The total number of people employed in Gratiot County for 2007 was 18,550 versus 18,819 in 2006, reflecting a decrease of 269 people.
- The unemployment rate for Gratiot County for 2007 was 8.6 percent, which increased from 8.3 percent in 2006.
- The State unemployment rate for 2007 was 7.2 percent, an increase from 6.8 percent in 2006.
- Inflationary trends in the region compare favorably to national indices.

County of Gratiot

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2007

- The inflation rate multiplier for use in the 2007 capped value formula under Proposal A for determining property tax increases was 1.037 percent. The inflation rate multiplier for 2008 is 1.023 percent. The following table shows the history since proposal A was passed:

1995	1.026
1996	1.028
1997	1.028
1998	1.027
1999	1.016
2000	1.019
2001	1.032
2002	1.032
2003	1.015
2004	1.023
2005	1.023
2006	1.033
2007	1.037
2008	1.023

- Health insurance and pension costs continue to increase following state and national trends.
- State Shared Revenue remains a concern as the State may not restore the payments due to long-term economic cycles.

The County considered all of these factors in preparing the County's budget for the 2008 fiscal year.

In order to meet these challenges, the County continues to utilize a very detailed budget process to identify issues and plan accordingly. The County will also begin utilizing five year budget projections to identify long-term financial issues and potential solutions.

**CONTACTING THE COUNTY**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the Gratiot County Treasurer's Office at (989) 875-5220 or Gratiot County Administration at (989) 875-5261 or via email, bsmith@co.gratiot.mi.us.

## **BASIC FINANCIAL STATEMENTS**

Gratiot County, Michigan

STATEMENT OF NET ASSETS

September 30, 2007

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 2,931,868	\$ 1,252,422	\$ 4,184,290	\$ 2,455,224
Investments	-	1,070,178	1,070,178	-
Receivables	2,441,540	889,274	3,330,814	2,207,183
Internal balances	(600,000)	600,000	-0-	-
Inventories	13,363	-	13,363	304,162
Prepays	93,181	-	93,181	85,313
Current portion of lease receivable	-	-	-0-	49,093
Total current assets	4,879,952	3,811,874	8,691,826	5,100,975
Noncurrent assets				
Restricted investments	35,000	-	35,000	-
Investments	-	399,722	399,722	-
Lease receivable	-	-	-0-	365,000
Advance to other governmental units	292,528	-	292,528	-
Capital assets not being depreciated	819,310	-	819,310	1,418,977
Capital assets, net of accumulated depreciation	7,977,365	-	7,977,365	31,224,579
Total noncurrent assets	9,124,203	399,722	9,523,925	33,008,556
TOTAL ASSETS	14,004,155	4,211,596	18,215,751	38,109,531
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	235,362	73,080	308,442	158,302
Accrued liabilities	106,783	1,402	108,185	47,960
Accrued interest payable	91,875	-	91,875	46,268
Due to other governmental units	53,900	577	54,477	31,516
Current portion of long-term debt	509,756	-	509,756	815,851
Total current liabilities	997,676	75,059	1,072,735	1,099,897
Noncurrent liabilities				
Advance from other governmental unit	-	-	-0-	292,528
Advance from State	-	-	-0-	169,559
Compensated absences	612,122	-	612,122	311,972
Noncurrent portion of long-term debt	4,092,043	-	4,092,043	1,861,090
Total noncurrent liabilities	4,704,165	-0-	4,704,165	2,635,149
TOTAL LIABILITIES	5,701,841	75,059	5,776,900	3,735,046
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	4,194,876	-	4,194,876	30,371,615
Restricted for				
Public safety	487,734	-	487,734	-
Capital improvement	188,141	-	188,141	-
Other purposes	2,328,669	-	2,328,669	2,050,973
Unrestricted	1,102,894	4,136,537	5,239,431	1,951,897
TOTAL NET ASSETS	\$ 8,302,314	\$ 4,136,537	\$ 12,438,851	\$ 34,374,485

See accompanying notes to financial statements.



Gratiot County, Michigan  
STATEMENT OF ACTIVITIES  
Year Ended September 30, 2007

					Net (Expense) Revenue and Changes in Net Assets			
		Program Revenues			Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Primary government								
Governmental activities								
General government	\$ 5,165,211	\$ 2,489,580	\$ 1,099,384	\$ 1,652	\$ (1,574,595)	\$ -	\$ (1,574,595)	\$ -
Public safety	3,639,795	264,968	179,534	107,614	(3,087,679)	-	(3,087,679)	-
Public works	-	-	-	111,495	111,495	-	111,495	-
Health and welfare	3,607,292	631,102	1,047,110	-	(1,929,080)	-	(1,929,080)	-
Community and economic development	204,249	34,030	49,944	-	(120,275)	-	(120,275)	-
Recreation and cultural	257,034	-	58	-	(256,976)	-	(256,976)	-
Interest on long-term debt	214,305	-	-	-	(214,305)	-	(214,305)	-
Total governmental activities	13,087,886	3,419,680	2,376,030	220,761	(7,071,415)	-0-	(7,071,415)	-0-
Business-type activities								
Delinquent tax	444	148,203	-	-	-	147,759	147,759	-
Other	148,194	137,398	-	-	-	(10,796)	(10,796)	-
Total business-type activities	148,638	285,601	-0-	-0-	-0-	136,963	136,963	-0-
Total primary government	\$ 13,236,524	\$ 3,705,281	\$ 2,376,030	\$ 220,761	(7,071,415)	136,963	(6,934,452)	-0-
Component units								
Drainage Districts	\$ 728,273	\$ 18,070	\$ -	\$ 1,387,582	-	-	-0-	677,379
Board of Public Works	23,525	-	-	23,525	-	-	-0-	-0-
Central Dispatch	742,536	729,246	-	-	-	-	-0-	(13,290)
Road Commission	7,357,632	1,298,973	4,736,249	2,124,297	-	-	-0-	801,887
Total component units	\$ 8,851,966	\$ 2,046,289	\$ 4,736,249	\$ 3,535,404	-0-	-0-	-0-	1,465,976
General revenues								
Property taxes					7,529,731	-	7,529,731	-
Investment earnings					123,585	135,358	258,943	138,698
Gain on equipment disposal					-	-	-0-	127,415
Miscellaneous					97,155	35,396	132,551	1,556
Transfers					497,451	(497,451)	-0-	-
Total general revenues and transfers					8,247,922	(326,697)	7,921,225	267,669
Change in net assets					1,176,507	(189,734)	986,773	1,733,845
Restated net assets, beginning of the year					7,125,807	4,326,271	11,452,078	32,840,840
Net assets, end of the year					\$ 8,302,314	\$ 4,136,537	\$ 12,438,851	\$ 34,374,485

See accompanying notes to financial statements.

Gratiot County, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET

September 30, 2007

	General	Revenue Sharing Reserve	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,325,691	\$ 15	\$ 1,595,192	\$ 2,920,898
Investments - restricted	-	-	35,000	35,000
Receivables				
Accounts	190,078	-	33,666	223,744
Taxes	1,811,867	-	-	1,811,867
Due from other funds	1,000	1,602,480	-	1,603,480
Due from other governmental units	33,340	-	129,173	162,513
Prepays	63,739	-	1,495	65,234
Advance to other governmental units	292,528	-	-	292,528
<b>TOTAL ASSETS</b>	<b>\$ 3,718,243</b>	<b>\$ 1,602,495</b>	<b>\$ 1,794,526</b>	<b>\$ 7,115,264</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 107,695	\$ -	\$ 127,667	\$ 235,362
Accrued payroll	80,581	-	26,202	106,783
Due to other governmental units	-	-	53,900	53,900
Due to other funds	2,202,480	-	-	2,202,480
<b>TOTAL LIABILITIES</b>	<b>2,390,756</b>	<b>-0-</b>	<b>207,769</b>	<b>2,598,525</b>
<b>FUND BALANCES</b>				
Reserved for				
Advances	292,528	-	-	292,528
Parks	-	-	37,255	37,255
Prepays	63,739	-	1,495	65,234
Unreserved				
Designated for				
Private donations	1,056	-	-	1,056
Handicap activities	4,698	-	-	4,698
Programming activities	4,050	-	-	4,050
Veterans activities	150	-	-	150
Renaissance zone	171,077	-	-	171,077
Circuit court counsel	39,767	-	-	39,767
Prosecuting attorney	54,892	-	-	54,892
Liquor law enforcement	12,684	-	-	12,684
Undesignated, reported in				
General fund	682,846	-	-	682,846
Special revenue funds	-	1,602,495	1,351,881	2,954,376
Debt service funds	-	-	7,985	7,985
Capital projects funds	-	-	188,141	188,141
<b>TOTAL FUND BALANCES</b>	<b>1,327,487</b>	<b>1,602,495</b>	<b>1,586,757</b>	<b>4,516,739</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,718,243</b>	<b>\$ 1,602,495</b>	<b>\$ 1,794,526</b>	<b>\$ 7,115,264</b>

See accompanying notes to financial statements.

Gratiot County, Michigan

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

September 30, 2007

**Total fund balance - governmental funds** **\$ 4,516,739**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 12,907,272	
Accumulated depreciation is	<u>(4,110,597)</u>	
Capital assets, net		8,796,675

Internal Service Funds are used by management to charge the costs  
of certain activities to individual funds. The assets and liabilities  
of the Internal Service Funds are included in the governmental activities  
in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	294,696
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Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the Governmental Funds Balance Sheet.  
Long-term liabilities at year-end consist of:

Direct County obligations	(4,601,799)	
Accrued interest payable	(91,875)	
Compensated absences	<u>(612,122)</u>	
		<u>(5,305,796)</u>

<b>Net assets of governmental activities</b>	<b><u><u>\$ 8,302,314</u></u></b>
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See accompanying notes to financial statements.

Gratiot County, Michigan

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended September 30, 2007

	General	Revenue Sharing Reserve	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 6,328,092	\$ -	\$ 1,201,641	\$ 7,529,733
Licenses and permits	140,023	-	114,364	254,387
Intergovernmental	1,023,946	-	2,005,286	3,029,232
Charges for services	1,942,917	-	173,542	2,116,459
Fines and forfeits	86,405	-	4,645	91,050
Interest and rents	71,044	-	113,261	184,305
Other	285,881	-	285,636	571,517
<b>TOTAL REVENUES</b>	<b>9,878,308</b>	<b>-0-</b>	<b>3,898,375</b>	<b>13,776,683</b>
<b>EXPENDITURES</b>				
Current				
General government	4,338,968	-	525,911	4,864,879
Public safety	2,868,084	-	508,665	3,376,749
Health and welfare	613,934	-	2,954,589	3,568,523
Community and economic development	91,540	-	112,709	204,249
Recreation and cultural	-	-	188,743	188,743
Capital outlay	-	-	543,732	543,732
Debt service	-	-	717,661	717,661
<b>TOTAL EXPENDITURES</b>	<b>7,912,526</b>	<b>-0-</b>	<b>5,552,010</b>	<b>13,464,536</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,965,782</b>	<b>-0-</b>	<b>(1,653,635)</b>	<b>312,147</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital lease proceeds	-	-	241,938	241,938
Transfers in	1,301,955	1,367,058	1,887,393	4,556,406
Transfers out	(3,104,454)	(807,504)	(323,197)	(4,235,155)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,802,499)</b>	<b>559,554</b>	<b>1,806,134</b>	<b>563,189</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>163,283</b>	<b>559,554</b>	<b>152,499</b>	<b>875,336</b>
Fund balances, beginning of year	1,164,204	1,042,941	1,434,258	3,641,403
Fund balances, end of year	<u>\$ 1,327,487</u>	<u>\$ 1,602,495</u>	<u>\$ 1,586,757</u>	<u>\$ 4,516,739</u>

See accompanying notes to financial statements.

Gratiot County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2007

**Net change in fund balances - total governmental funds** **\$ 875,336**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 571,104	
Depreciation expense	<u>(550,654)</u>	
Excess of capital outlay over depreciation expense		20,450

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net assets of Internal Service Funds		34,159
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenue at the fund level. In the current year, these amounts consist of:

(Decrease) in deferred revenue		(9,741)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Debt proceeds	(241,938)	
Bond and capital lease principal retirements	<u>500,966</u>	
		259,028

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	2,390	
(Increase) in accrued compensated absences	<u>(5,115)</u>	
		<u>(2,725)</u>

<b>Change in net assets of governmental activities</b>		<b><u><u>\$ 1,176,507</u></u></b>
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See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF NET ASSETS

September 30, 2007

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 1,047,454	\$ 204,988	\$ 1,252,422	\$ 10,970
Investments	1,070,178	-	1,070,178	-
Receivables	877,570	3,797	881,367	243,416
Inventories	-	-	-0-	13,363
Due from other governmental units	7,907	-	7,907	-
Due from other funds	600,000	-	600,000	-
Prepays	-	-	-0-	27,947
Total current assets	3,603,109	208,765	3,811,874	295,696
Noncurrent assets				
Investments	399,722	-	399,722	-
TOTAL ASSETS	4,002,831	208,765	4,211,596	295,696
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	71,201	1,879	73,080	-
Accrued liabilities	-	1,402	1,402	-
Due to other governmental units	577	-	577	-
Due to other funds	-	-	-0-	1,000
TOTAL LIABILITIES	71,778	3,281	75,059	1,000
<b>NET ASSETS</b>				
Unrestricted	\$ 3,931,053	\$ 205,484	\$ 4,136,537	\$ 294,696

See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2007

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES				
Interest and penalties on delinquent taxes	\$ 148,203	\$ -	\$ 148,203	\$ -
Charges for services	-	137,398	137,398	2,021,557
Intergovernmental - local	-	-	-0-	39,409
Other revenue	-	35,396	35,396	31,004
<b>TOTAL OPERATING REVENUES</b>	<b>148,203</b>	<b>172,794</b>	<b>320,997</b>	<b>2,091,970</b>
OPERATING EXPENSES				
Salaries	-	21,068	21,068	-
Fringe benefits	-	9,113	9,113	2,160,095
Contractual services	-	1,300	1,300	-
Supplies	-	33,804	33,804	-
Communication	-	207	207	-
Miscellaneous	444	82,702	83,146	74,035
<b>TOTAL OPERATING EXPENSES</b>	<b>444</b>	<b>148,194</b>	<b>148,638</b>	<b>2,234,130</b>
<b>OPERATING INCOME (LOSS)</b>	<b>147,759</b>	<b>24,600</b>	<b>172,359</b>	<b>(142,160)</b>
NONOPERATING REVENUES				
Interest revenue	126,332	9,026	135,358	119
<b>INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES)</b>	<b>274,091</b>	<b>33,626</b>	<b>307,717</b>	<b>(142,041)</b>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,441	1,441	176,200
Transfers out	(495,892)	(3,000)	(498,892)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(495,892)</b>	<b>(1,559)</b>	<b>(497,451)</b>	<b>176,200</b>
<b>CHANGE IN NET ASSETS</b>	<b>(221,801)</b>	<b>32,067</b>	<b>(189,734)</b>	<b>34,159</b>
Net assets, beginning of year	4,152,854	173,417	4,326,271	260,537
Net assets, end of year	<u>\$ 3,931,053</u>	<u>\$ 205,484</u>	<u>\$ 4,136,537</u>	<u>\$ 294,696</u>

See accompanying notes to financial statements.

Gratiot County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended September 30, 2007

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from customers	\$ 1,486,332	\$ 170,549	\$ 1,656,881	\$ 1,864,762
Cash paid to suppliers	(3,633)	(120,040)	(123,673)	(76,596)
Cash paid for employee benefits	-	-	-0-	(2,091,458)
Cash paid to employees	-	(30,347)	(30,347)	-
Cash paid for delinquent taxes	(1,936,319)	-	(1,936,319)	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(453,620)</b>	<b>20,162</b>	<b>(433,458)</b>	<b>(303,292)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	-	1,441	1,441	176,200
Transfers out	(495,892)	(3,000)	(498,892)	-
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(495,892)</b>	<b>(1,559)</b>	<b>(497,451)</b>	<b>176,200</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(1,325,408)	-	(1,325,408)	-
Maturity of investments	2,290,662	91,000	2,381,662	-
Interest revenue	126,332	9,026	135,358	119
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>1,091,586</b>	<b>100,026</b>	<b>1,191,612</b>	<b>119</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>142,074</b>	<b>118,629</b>	<b>260,703</b>	<b>(126,973)</b>
Cash and cash equivalents, beginning of year	905,380	86,339	991,719	137,943
Cash and cash equivalents, end of year	<u>\$ 1,047,454</u>	<u>\$ 204,968</u>	<u>\$ 1,252,422</u>	<u>\$ 10,970</u>

See accompanying notes to financial statements.



Gratiot County, Michigan

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended September 30, 2007

	Business-type Activities			Governmental Activities
	Delinquent Tax Revolving	Nonmajor Enterprise Funds	Total	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 147,759	\$ 24,600	\$ 172,359	\$ (142,160)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
(Increase) in receivables	(98,909)	(2,245)	(101,154)	(227,208)
Decrease in due from other governmental units	78,719	-	78,719	-
(Increase) in due from other funds	(578,000)	-	(578,000)	-
Decrease in prepaids	-	-	-0-	178,394
(Decrease) in accounts payable	(1,483)	(2,027)	(3,510)	(24,902)
(Decrease) in accrued liabilities	-	(166)	(166)	(87,916)
(Decrease) in due to other governments	(511)	-	(511)	-
Increase (decrease) in due to other funds	(1,195)	-	(1,195)	500
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (453,620)</u>	<u>\$ 20,162</u>	<u>\$ (433,458)</u>	<u>\$ (303,292)</u>

Gratiot County, Michigan  
Fiduciary Funds  
STATEMENT OF NET ASSETS  
September 30, 2007

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 1,385,628</u>
<b>LIABILITIES</b>	
Undistributed collections payable	\$ 101,638
Defendant bonds payable	51,134
Due to other governmental units	1,097,431
Due to individuals and agencies	<u>135,425</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 1,385,628</u>

See accompanying notes to financial statements.

Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2007

	Road Commission	Central Dispatch Authority	Board of Public Works
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,539,753	\$ 290,044	\$ 314
Receivables	816,056	54,019	-
Inventories	304,162	-	-
Due from other governmental units	-	34,202	-
Prepays	-	85,313	-
Current portion of lease receivable	-	-	49,093
Total current assets	2,659,971	463,578	49,407
Noncurrent assets			
Lease receivable	-	-	365,000
Capital assets not being depreciated	625,390	-	-
Capital assets, net of accumulated depreciation	25,956,190	156,650	-
Total noncurrent assets	26,581,580	156,650	365,000
<b>TOTAL ASSETS</b>	<b>29,241,551</b>	<b>620,228</b>	<b>414,407</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	62,838	6,300	-
Accrued liabilities	33,113	14,847	-
Accrued interest payable	-	-	9,093
Due to other governmental units	31,516	-	-
Current portion of long-term debt	-	-	40,000
Total current liabilities	127,467	21,147	49,093
Noncurrent liabilities			
Advance from other governmental units	-	-	-
Advance from State	169,559	-	-
Compensated absences	311,972	-	-
Noncurrent portion of long-term debt	-	-	365,000
Total noncurrent liabilities	481,531	-0-	365,000
<b>TOTAL LIABILITIES</b>	<b>608,998</b>	<b>21,147</b>	<b>414,093</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	26,581,580	156,650	-
Restricted for other purposes	2,050,973	-	-
Unrestricted	-	442,431	314
<b>TOTAL NET ASSETS</b>	<b>\$ 28,632,553</b>	<b>\$ 599,081</b>	<b>\$ 314</b>

See accompanying notes to financial statements.

Drainage Districts	Total Component Units
\$ 625,113	\$ 2,455,224
1,302,906	2,172,981
-	304,162
-	34,202
-	85,313
-	49,093
1,928,019	5,100,975
-	365,000
793,587	1,418,977
5,111,739	31,224,579
5,905,326	33,008,556
7,833,345	38,109,531
89,164	158,302
-	47,960
37,175	46,268
-	31,516
775,851	815,851
902,190	1,099,897
292,528	292,528
-	169,559
-	311,972
1,496,090	1,861,090
1,788,618	2,635,149
2,690,808	3,735,046
3,633,385	30,371,615
-	2,050,973
1,509,152	1,951,897
<u>\$ 5,142,537</u>	<u>\$ 34,374,485</u>

Gratiot County, Michigan

Component Unit Funds

STATEMENT OF ACTIVITIES

Year Ended September 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Drainage Districts	\$ 728,273	\$ 18,070	\$ -	\$ 1,387,582	\$ 677,379
Board of Public Works	23,525	-	-	23,525	-0-
Central Dispatch	742,536	729,246	-	-	(13,290)
Road Commission	7,357,632	1,298,973	4,736,249	2,124,297	801,887
<b>TOTALS</b>	<b>\$ 8,851,966</b>	<b>\$ 2,046,289</b>	<b>\$ 4,736,249</b>	<b>\$ 3,535,404</b>	<b>1,465,976</b>
General revenues					
Investment earnings					138,698
Gain on equipment disposal					127,415
Miscellaneous					1,556
Total general revenues					267,669
CHANGE IN NET ASSETS					1,733,645
Restated net assets, beginning of year					32,640,840
Net assets, end of year					<u>\$ 34,374,485</u>

See accompanying notes to financial statements.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The County of Gratiot, Michigan, was incorporated in 1855, and covers an area of approximately 580 square miles with the County seat located in the City of Ithaca. The County operates under an elected Board of Commissioners and provides services to its more than 40,000 residents in many areas including law enforcement, administration of justice, community enrichment and development, and human services.

The financial statements of the County have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to County governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's more significant accounting policies are described below.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing* No. 5, these financial statements present the financial activities of Gratiot County (primary government) and its component units. The component units described in Sections 2 and 3 below should be included in the County's reporting entity because of the significance of their operational or financial relationship with the County. Blended component units, although legally separate entities, are in substance, part of the County's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County.

**2. Blended Component Unit**

A three (3) member Board appointed by the Gratiot County Board of Commissioners governs the Gratiot County Building Authority. Its sole purpose is to finance and construct the County's public buildings. It is reported in the Debt Service and Capital Projects fund categories. A separate report is not prepared for the Building Authority.

**3. Discretely Presented Component Units**

These component units are reported in a separate column to emphasize that, while legally separate, Gratiot County remains financially accountable for these entities, or the nature and significance of the relationship between these entities and Gratiot County is such that exclusion of these entities would render the financial statements misleading or incomplete.

The Gratiot County Road Commission is responsible for the maintenance and construction of the County road system. The Road Commission operations are financed primarily from the State distribution of gas and weight taxes, Federal financial assistance, and contributions from other local government units within the County. The Gratiot County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three (3) member board of county road commissioners. The Road Commission is a separate legal entity from the County and they maintain a separate financial and accounting system. This component unit is audited individually and complete financial statements may be obtained from the Road Commission's administrative office.

The Gratiot County Board of Public Works (BPW) is a five (5) member Board comprised of the Drain Commissioner, a County Commissioner, a Road Commissioner, and two (2) members selected by the County Board of Commissioners (one (1) from City government and one (1) at large). The Board is under the general control of the County Board of Commissioners. The Board can acquire, improve, operate, and maintain water and sewage disposal systems for local units of government. Projects are initiated when the local unit requests the assistance of the BPW in organizing a project. Usually projects are financed by the sale of bonds upon final approval by the County Board of Commissioners as recommended by the BPW. The County must sell the bonds and pledge its full faith and security for payment of principal and interest. Special assessments are levied by the local units of government on benefited properties and are forwarded to the County for payment of principal and interest.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**3. Discretely Presented Component Units - continued**

The Drainage Districts in the County come under the jurisdiction of the Gratiot County Drain Commissioner. This includes planning, developing, and maintaining surface water drainage systems. A complete file of finance, construction, and maintenance is maintained for each of the drains. The Drain Commissioner has authority to spend up to \$2,500 per mile on drain maintenance and may borrow up to \$300,000 from any source to provide for maintenance of a drain without Board of Commissioner approval and without going through the Municipal Finance Division, State of Michigan. The Drain Commissioner has authority to levy special assessments on properties benefiting from maintenance. The Drainage Districts are financially accountable to the County because bond issuances greater than \$300,000 require County authorization and are backed by the full faith and credit of the County.

The Central Dispatch Authority is classified as a joint venture with various other governmental units. The details related to this joint venture agreement are disclosed below.

**4. Joint Ventures**

The County participates in the following activities, which are considered to be joint ventures in relation to the County due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

Gratiot County Central Dispatch Authority - The County is a member of the Gratiot County Central Dispatch Authority, which is a joint venture between Gratiot County, the Michigan State Police, the Villages of Ashley, Perrinton, and Breckenridge; and the Cities of Alma, St. Louis, and Ithaca. The Authority is governed by a ten (10) member board. One (1) board member is appointed by each of the participating governmental units and three (3) board members are set by statute. The three (3) statutory representatives are appointed by the Sheriff, the Fire Chief, and the Michigan State Police. The Authority has responsibility for preparing the annual budget (which is approved by the County) and to carry out all activities of the Authority.

The Authority's intent is to support and operate central dispatch services primarily with funds generated from operations (i.e., telephone surcharge fees). Any required local contributions would be calculated based on a pro rated scale, which takes into account the impact and use of the system for each participating unit. In November 2002, voters in Gratiot County approved a 911 surcharge to fully finance Central Dispatch Operations. For the year ended September 30, 2007, the County was not required to make a contribution to the Authority.

The financial activities of the Gratiot County Central Dispatch Authority are reported in the County's audited financial statements as a discretely presented component unit due to the County being responsible for the receipt and disbursement of the Authority's funds.

Gratiot Community Airport Commission - The County is a member of the Gratiot Community Airport Commission, which is a joint venture between Gratiot County and the City of Alma. Each unit appoints three (3) of the six (6) members to the Commission. The Commission has responsibility for preparing the annual budget (which is approved by the County and the City) and to carry out all activities of the Commission.

Each unit is responsible to fund 50% of the required local contribution to cover operational costs. The land and other property acquired during the term of the agreement are held by the County and City as tenants in common in such proportions as their contributions in the year of acquisition. For the year ended September 30, 2007, the County contributed \$35,000 to cover its share of operational costs.

The financial activities of the Gratiot Community Airport Commission are reported in the City of Alma's audited financial statements as a component unit, due to the City being responsible for the receipt and disbursement of the Commission's funds. As of June 30, 2007, the Commission had net assets of \$1,006,136. A copy of the Commission's audited financial statements can be obtained at City Hall.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**4. Joint Ventures - continued**

**Mid-Michigan District Health Department** - The County is a member of the Mid-Michigan District Health Department, which is a joint venture between Gratiot, Clinton, and Montcalm counties. Each unit appoints two (2) of the six (6) members to the governing Board. The Department has responsibility for preparing the annual budget (which is approved by each County) and to carry out all activities of the Department.

Each unit is responsible to fund a percentage of the overall budget pursuant to a formula included in the interlocal agreement to cover operational costs. For the year ended September 30, 2007, the County contributed \$271,107 to cover its share of operational costs.

The financial activities of the Mid-Michigan District Health Department are accounted for and reported separately from the participating units. Separate audited financial statements for their year ended September 30, 2007 are available at the Department's administrative offices. As of September 30, 2007, the Department had a fund balance of \$1,183,769. A copy of the Department's audited financial statements can be obtained at their administrative offices.

**5. Jointly Governed Organizations**

The County participates in the following activities which are considered to be jointly governed organizations in relation to the County due to there being no ongoing financial interest or responsibility.

**East Central Michigan Planning & Development Regional Commission** - Gratiot County, in conjunction with thirteen (13) other Counties, has entered into an agreement which created the East Central Michigan Planning & Development Regional Commission. This organization's Board is composed of 48 members, of which two (2) are appointed by Gratiot County. The County's financial responsibility is to contribute a pro rata share of "local match" funds based on the proportion of State equalized valuation. For the year ended September 30, 2007, the County's contribution to the Commission was \$5,500.

**Central Area Partnership Consortium** - Gratiot County, in conjunction with three (3) other Counties, has entered into an agreement that created the Central Area Partnership Consortium. This organization's Board is composed of eight (8) members, of which two (2) are appointed by Gratiot County. The organization receives all of its funding from State and Federal grants and, as a result, the County has no financial responsibility other than potential liability related to inappropriate use of the funds.

**Mid-South Substance Abuse Commission** - Gratiot County, in conjunction with five (5) other Counties, has entered into an agreement that created the Mid-South Substance Abuse Commission. This organization's Board is composed of fifteen (15) members, of which one (1) is appointed by Gratiot County. The County's financial responsibility is to pass through 50% of the Convention and Tourism revenues received to the Commission. Also, if the Commission were to need additional operating funds, the County would be responsible to contribute a portion based on the percentage of Board membership (currently 7%). For the year ended September 30, 2007, the County passed through \$45,751 and was not required to make any additional appropriation.

**6. Related Organizations**

**Greater Gratiot Development, Inc.** - The purposes of the organization is to conduct an aggressive program for the economic growth and development of the Gratiot County area by assistance and encouragement for the maintenance and expansion of existing business and industry, the acquisition of new business and branch plants, the conduct of such other activities which will broaden the economic base to increase employment and business opportunities, and generally contribute to the advancement and growth of the area for the purpose of benefiting the community. Activities to create jobs and enhance the local tax base are its highest priority. A substantive part of these activities is offering help to new and existing small businesses in obtaining financing and making low interest loans to industrial oriented firms. For the year ended September 30, 2007, the County's contribution to Greater Gratiot Development, Inc. was \$85,038.



Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**6. Related Organizations - continued**

Gratiot County Community Mental Health Services - The Gratiot County Community Mental Health Services (Board) operates under the provisions of PA 258 of 1974, as amended. This organization is an Authority in accordance with the Act and is a completely separate unit of government. Their audit can be obtained at their administrative offices. The Board provides funding for services in the area of mental illness, developmental disabilities, and other related mental health needs for the residents of the County of Gratiot. For the year ended September 30, 2007, the County's contribution to Mental Health Services was \$200,000.

**7. Basis of Presentation**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

**FUND FINANCIAL STATEMENTS**

The fund financial statements present the County's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the County are:

- a. The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Revenue Sharing Reserve Fund was established to account for the shift of State Revenue Sharing dollars from State to local funding.
- c. The Delinquent Tax Revolving Fund accounts for money advanced by the County to other local taxing units and various County funds to pay for their delinquent real property taxes. Revenues are generated by the collection of delinquent real property taxes, penalties, and interest.

Additionally, the County reports activities in internal service funds which account for various internal activities that are provided to other departments of funds of the County on a cost reimbursement basis.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**8. Measurement Focus**

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary funds since assets equal liabilities.

**9. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, then unrestricted resources as they are needed.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**10. Cash and Cash Equivalents**

The County pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the County's investments. Cash equivalents consist of temporary investments in certificates of deposit, mutual funds, U.S. government securities, certificates of deposit with an original maturity of 90 days or less, and cash on deposit with the Midland County Treasurer.

**11. Restricted Investments**

The Fraker Trust holds funds in a separate account for the future payment of the trust fund expenses related to maintenance or improvement of the park in Pompeii.

**12. Investments**

Investments consist of U.S. government securities and certificates of deposit with original maturities of greater than 90 days. Investments are recorded at cost, which approximates market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

**13. Receivables**

Receivables consist of amounts due from governmental units for various financial assistance programs and accounts receivable related to charges for services.

**14. Inventories**

Inventories in the Drain Tile (Internal Service) Fund consist of equipment parts and materials. These items are valued at cost on a first-in/first-out basis. Inventories in the Road Commission (Component Unit) Fund are priced at cost as determined on the average cost method. Road Commission inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

**15. Capital Assets**

**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)**

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$10,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and Improvements	5 - 50 years
Equipment and furniture	3 - 20 years
Vehicles	3 - 5 years
Drain infrastructure	40 years

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**15. Capital Assets - continued**

**ROAD COMMISSION - COMPONENT UNIT**

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, and similar items), are reported in the government-wide financial statements. Capital assets are defined by Gratiot County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. Effective with the fiscal year ended September 30, 2003, the Gratiot County Road Commission adopted the provisions of GASB statement No. 34 and also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	5 - 10 years
Office Equipment	5 - 10 years
Infrastructure - Roads	8 - 30 years
Infrastructure - Bridges	12 - 50 years

**16. Long-Term Obligations**

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

**17. Advance to other governmental unit**

Long-term advances from the primary government to component units are made to finance new activities during their initial operations and to finance capital acquisitions. The applicable fund balance is reserved in the Fund financial statements for such advances to reflect the amount of fund balance not currently available for expenditure.

**18. Accrued Compensated Absences**

In accordance with the County personnel policies and/or contracts negotiated with the various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE A: DESCRIPTION OF COUNTY OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**18. Accrued Compensated Absences - continued**

Vested vacation and sick leave earned as of September 30, 2007, including related payroll taxes, is recorded in the government-wide financial statements as a noncurrent liability.

**19. Interfund Transactions**

During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Internal Service Funds are used to record charges for services to all County departments and funds as operating transfers or operating revenue. All County funds record these payments to the Internal Service Funds as operating transfers or operating expenditures/expenses.

**20. Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the Fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The County employs the following procedures in establishing budgets:

- a. Prior to May 1, the County departments, in conjunction with the Administrator's office, prepare and submit their proposed operating budgets to the Budget and Finance Committee for the fiscal year commencing the following October 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is held to obtain taxpayers' comments.
- c. Prior to September 30, the budgets are legally enacted through passage of an annual budget resolution.
- d. The budgets are legally adopted at the activity level for the General Fund and the fund level for the Special Revenue funds. Budgetary transfers between funds and amendments to total fund budgets are not permitted without Board approval. For control purposes, all funds' budgets are maintained at the activity and account level. The Treasurer and Administrator are authorized to transfer budget amounts between accounts.
- e. The County does not employ encumbrance accounting as an extension of formula budgetary integration in the governmental funds. All unexpended appropriations lapse at year-end.
- f. Applicable budgeted amounts are reported as originally adopted or as amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations that were adopted.

**21. Federal Programs**

Federal Programs are accounted for in the funds to which the programs pertain. The County has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

**22. Comparative Data**

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE B: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT**

The County utilizes pooled cash accounts for approximately fifty-nine (59) funds. Cash overdrafts of individual funds as of September 30, 2007, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Non-pooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Special Revenue Funds			
Friend of the Court	\$( 40,127 )	\$ -	\$( 40,127 )
Community Corrections	( 8,457 )	-	( 8,457 )
DHS State Monies	( 7,154 )	-	( 7,154 )
Internal Service Funds			
Fringe Benefits	( 5,030 )	5,119	89
TOTAL PRIMARY GOVERNMENT	\$( 60,768 )	\$ 5,119	\$ 55,649

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

The County utilizes various pooled cash accounts and investments for approximately fifty-nine (59) funds. The County's pooled cash and investments consist of a common checking account, savings, certificates of deposit, and mutual funds.

The County's pooled cash and investments are utilized by the General Fund, Special Revenue Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, Trust and Agency Funds, and Component Unit Funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents caption in the applicable balance sheet/statement of net assets.

The other funds of the County utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit and mutual funds are separately held by several of the County's funds.

In accordance with Michigan Compiled Laws, the County is authorized to invest in the following investment vehicles:

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration (NCUA), but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
- Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- The United States government or federal agency obligations repurchase agreements.
- Bankers acceptances of United States banks.
- Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Federal Deposit Insurance Corporation (FDIC), FSLIC, and NCUA regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits, and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of September 30, 2007, the carrying amounts and bank balance for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 2,923,294	\$ 4,468,794
Certificates of deposit	<u>1,174,447</u>	<u>1,174,447</u>
Total primary government	4,097,741	5,643,241
COMPONENT UNITS		
Checking and savings	1,980,228	2,166,295
Certificates of deposit	<u>342,945</u>	<u>342,945</u>
Total component units	2,323,173	2,509,240
Fiduciary Funds		
Checking	<u>1,385,628</u>	<u>1,574,231</u>
TOTAL REPORTING ENTITY	<u>\$ 7,806,542</u>	<u>\$ 9,726,712</u>

Deposits of the County are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the County. As of September 30, 2007, the primary government, component units, and fiduciary fund accounts were insured by the FDIC, FSLIC, or NCUA for \$942,797 and the amount of \$8,783,915 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the County held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Investments

As of September 30, 2007, the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Uncategorized pooled investments				
MBIA - Michigan Class	\$ 286,969	\$ 286,969	Not Rated	48 days
AF Government Class I	72,435	72,435	Aaa	7 day
Federal Home Loan Bank Bonds	1,008,075	1,008,075	Aaa	2.53 years
Federal Home Loan Mortgage Association Bonds	<u>222,070</u>	<u>222,070</u>	Aaa	2.53 years
	<u>\$ 1,589,549</u>	<u>\$ 1,589,549</u>		

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of September 30, 2007, rating information on the County's investments is presented above.

Interest rate risk

The County will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operating funds primarily in shorter-term securities, liquid asset funds, money market, mutual funds, or similar investment pools and limiting the average maturity in accordance with the County's cash requirements.

Concentration of credit risk

The County will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the County's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The County will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by:

- Limiting investments to the types of securities listed in this investment policy
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the County will do business in accordance with this investment policy.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of September 30, 2007:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 4,184,290	\$ 2,455,224	\$ 1,385,628	\$ 8,025,142
Investments - restricted	35,000	-	-	35,000
Investments	<u>1,469,900</u>	<u>-</u>	<u>-</u>	<u>1,469,900</u>
	<u>\$ 5,689,190</u>	<u>\$ 2,455,224</u>	<u>\$ 1,385,628</u>	<u>\$ 9,530,042</u>

The primary government cash and cash equivalents caption on the Statement of Net Assets includes \$1,900 in imprest cash. The component unit cash and cash equivalents caption on the Statement of Net Assets includes \$200 in imprest cash and \$131,851 on deposit with the Drain Commissioner of Midland County. The restricted investment of \$35,000 was being held by the County in a separate account for future maintenance and improvements of the park in Pompeii per a formal trust agreement.



Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details interfund receivables and payables at September 30, 2007:

**PRIMARY GOVERNMENT**

Due to General Fund from:	
Internal Service Funds	\$ <u>1,000</u>

Due to Revenue Sharing Reserve Fund from:	
General Fund	\$ <u>1,602,480</u>

Due to Delinquent Tax Revolving Fund from:	
General Fund	\$ <u>600,000</u>

**COMPONENT UNITS - DRAINAGE DISTRICTS**

Due to Component Unit Funds from:	
Other Component Unit Funds	\$ <u>300,641</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for amounts that have not cleared as of the balance sheet date.

**NOTE E: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and component units have been eliminated.

Transfers to General Fund from:	
Revenue Sharing Reserve Fund	\$ 807,504
Delinquent Tax Revolving	<u>494,451</u>

Total transfers to general fund from other funds	\$ <u>1,301,955</u>
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Transfer to Revenue Sharing Reserve Fund from:	
General Fund	\$ <u>1,367,058</u>

Transfers to nonmajor governmental funds from:	
General Fund	\$ 1,561,196
Nonmajor governmental funds	323,197
Nonmajor enterprise funds	<u>3,000</u>

Total transfers to nonmajor governmental funds	\$ <u>1,887,393</u>
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Transfers to nonmajor enterprise funds from:	
Delinquent Tax Revolving	\$ <u>1,441</u>

Transfers to internal service fund from:	
General Fund	\$ <u>176,200</u>

Transfer to Component Unit Funds from:	
Other Component Unit Funds	\$ <u>1,126,000</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE F: CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2007, was as follows:

**Primary Government**

	Balance Oct. 1, 2006	Additions	Deletions	Balance Sept. 30, 2007
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 645,109	\$ -	\$( 15,721 )	\$ 629,388
Construction in progress	-	189,922	-	189,922
Subtotal	645,109	189,922	( 15,721 )	819,310
Capital assets being depreciated				
Buildings and additions	9,767,025	53,172	-	9,820,197
Equipment and furniture	1,491,387	54,422	( 34,138 )	1,511,671
Vehicles	655,934	273,588	( 173,428 )	756,094
Subtotal	11,914,346	381,182	( 207,566 )	12,087,962
Less accumulated depreciation for				
Buildings and additions	( 2,616,100 )	( 200,550 )	-	( 2,816,650 )
Equipment and furniture	( 620,484 )	( 163,201 )	10,590	( 773,095 )
Vehicles	( 546,646 )	( 142,817 )	168,611	( 520,852 )
Subtotal	( 3,783,230 )	( 506,568 )	179,201	( 4,110,597 )
Net capital assets being depreciated	8,131,116	( 125,386 )	( 28,365 )	7,977,365
Capital assets, net	\$ 8,776,225	\$ 64,536	\$( 44,086 )	\$ 8,796,675

The current year depreciation expense of \$506,568 has been adjusted by \$44,086 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Depreciation expense was charged to the following governmental activities:

General government	\$ 180,548
Public safety	263,046
Recreation and cultural	68,291
Health and welfare	38,769
Total depreciation expense	\$ 550,654

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Component Unit - Drainage Districts**

	<u>Restated Balance Oct. 1, 2006</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance Sept. 30, 2007</u>
Component Unit - Drainage Districts				
Capital assets not being depreciated				
Construction in progress	\$ 404,808	\$ 653,641	\$( 264,862 )	\$ 793,587
Capital assets being depreciated				
Drains	5,602,795	730,243	-	6,333,038
Equipment and furniture	43,949	-	-	43,949
Vehicles	<u>38,221</u>	<u>-</u>	<u>-</u>	<u>38,221</u>
Subtotal	5,684,965	730,243	-0-	6,415,208
Less accumulated depreciation for				
Drains	( 1,102,437 )	( 153,167 )	-	( 1,255,604 )
Equipment and furniture	( 11,720 )	( 8,790 )	-	( 20,510 )
Vehicles	<u>( 19,710 )</u>	<u>( 7,645 )</u>	<u>-</u>	<u>( 27,355 )</u>
Subtotal	<u>( 1,133,867 )</u>	<u>( 169,602 )</u>	<u>-0-</u>	<u>( 1,303,469 )</u>
Net capital assets being depreciated	<u>4,551,098</u>	<u>560,641</u>	<u>-0-</u>	<u>5,111,739</u>
Capital assets, net	<u>\$ 4,955,906</u>	<u>\$ 1,214,282</u>	<u>\$( 264,862 )</u>	<u>\$ 5,905,326</u>

**Component Unit - Central Dispatch Authority**

Component Unit - Central Dispatch				
Capital assets being depreciated				
Equipment	\$ 126,365	\$ 167,839	-	\$ 294,204
Less accumulated depreciation for				
Equipment	<u>( 126,365 )</u>	<u>( 11,189 )</u>	<u>-</u>	<u>( 137,554 )</u>
Capital assets, net	<u>\$ -0-</u>	<u>\$ 156,650</u>	<u>\$ -0-</u>	<u>\$ 156,650</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Component Unit - Road Commission**

	Balance Oct. 1, 2006	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Sept. 30, 2007
<b>Component Unit - Road Commission</b>				
Capital assets not being depreciated				
Land	\$ 116,903	\$ -	\$ -	\$ 116,903
Infrastructure - Land/Right-of-Way	3,086	-	-	3,086
Infrastructure - Land Improvements	<u>424,720</u>	<u>80,681</u>	<u>-</u>	<u>505,401</u>
Subtotal	544,709	80,681	-0-	625,390
<b>Capital assets being depreciated</b>				
Land Improvements	59,959	-	-	59,959
Buildings	2,213,570	24,415	-	2,237,985
Road Equipment	5,377,341	460,018	( 407,465 )	5,429,894
Shop Equipment	139,263	-	-	139,263
Office Equipment	221,380	15,296	-	237,306
Engineer's Equipment	95,036	15,391	-	110,427
Yard and Storage	16,573	-	-	16,573
Infrastructure - Bridges	14,734,904	486,229	( 7,448 )	15,213,685
Infrastructure - Roads	22,973,910	2,155,176	( 1,778,690 )	23,350,396
Infrastructure - Traffic Signals	<u>4,558</u>	<u>-</u>	<u>-</u>	<u>4,558</u>
Subtotal	45,836,494	3,157,155	( 2,193,603 )	46,800,046
<b>Less accumulated depreciation for</b>				
Land Improvements	( 38,290 )	( 1,723 )	-	( 40,013 )
Building	( 592,642 )	( 39,029 )	-	( 631,671 )
Road Equipment	( 4,354,895 )	( 465,742 )	279,764	( 4,540,873 )
Shop Equipment	( 88,651 )	( 8,680 )	-	( 97,331 )
Office Equipment	( 167,964 )	( 16,361 )	-	( 184,325 )
Engineer's Equipment	( 84,153 )	( 5,107 )	-	( 89,260 )
Yard and Storage	( 12,498 )	( 829 )	-	( 13,327 )
Infrastructure - Bridges	( 4,948,514 )	( 304,921 )	7,448	( 5,245,987 )
Infrastructure - Roads	(10,066,753 )	( 1,708,668 )	1,778,690	( 9,996,731 )
Infrastructure - Traffic Signals	<u>( 4,265 )</u>	<u>( 73 )</u>	<u>-</u>	<u>( 4,338 )</u>
Subtotal	<u>(20,358,625 )</u>	<u>( 2,551,133 )</u>	<u>2,065,902</u>	<u>(20,843,856 )</u>
Capital assets being depreciated, net	<u>25,477,869</u>	<u>606,022</u>	<u>( 127,701 )</u>	<u>25,956,190</u>
Total capital assets, net	<u>\$26,022,578</u>	<u>\$ 686,703</u>	<u>\$ ( 127,701 )</u>	<u>\$ 26,581,580</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Component Unit - Road Commission - continued**

Depreciation expense was charged to the following activities:

Net Equipment Expense	
Direct equipment	\$ 465,742
Indirect equipment	
Shop building	25,357
Storage building	829
Shop equipment	8,680
State salt shed	8,929
Net Administrative Expense	
Buildings	4,743
Office equipment and furniture	16,361
Engineers Equipment	5,107
Land and Improvements	1,723
Infrastructure	<u>2,013,662</u>
Total depreciation expense	<u>\$ 2,551,133</u>

**NOTE G: LONG-TERM DEBT**

The following is a summary of changes in long term debt (including current portion) of the County for the year ended September 30, 2007:

	Restated Balance Oct. 1, 2006	Additions	Deletions	Balance Sept. 30, 2007	Amounts Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
Governmental Activities					
Direct County Obligations					
Bonds	\$ 4,860,827	\$ -	\$ 376,133	\$ 4,484,694	\$ 392,651
Lease	-	241,938	124,833	117,105	117,105
Accrued compensated absences	<u>607,007</u>	<u>459,595</u>	<u>454,480</u>	<u>612,122</u>	-
TOTAL PRIMARY GOVERNMENT	5,467,834	701,533	955,446	5,213,921	509,756
<b>COMPONENT UNITS</b>					
Road Commission					
Accrued compensated absences	312,223	-	251	311,972	-
Board of Public Works					
Water and sewer bonds	445,000	-	40,000	405,000	40,000
Drainage Districts					
Drain bonds and notes	<u>1,930,121</u>	<u>815,894</u>	<u>474,074</u>	<u>2,271,941</u>	<u>775,851</u>
TOTAL COMPONENT UNITS	<u>2,687,344</u>	<u>815,894</u>	<u>514,325</u>	<u>2,988,913</u>	<u>815,851</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 8,155,178</u>	<u>\$ 1,517,427</u>	<u>\$ 1,469,771</u>	<u>\$ 8,202,834</u>	<u>\$ 1,325,607</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE G: LONG-TERM DEBT - CONTINUED**

Significant details regarding outstanding long-term debt (including current portion) are presented below:

**PRIMARY GOVERNMENT**

**Direct County Obligations - Bonds**

The Gratiot County Board of Commissioners is party to three (3) long-term lease agreements for rental of the Mental Health Building, the District Health and Jail renovations, and the Courthouse addition from the Gratiot County Building Authority. The lease agreements stipulate that the annual rentals be paid by the County to the Building Authority in amounts sufficient to meet the annual principal and interest on bonds, which shall be pledged exclusively for that purpose. When all debt has been retired for the buildings, the rentals will cease, title to the buildings will be transferred to the County, and any cash balances remaining with the Building Authority will be returned to the County.

Bonds payable at September 30, 2007, is as follows:

\$2,100,000 Gratiot County Building Authority Bonds (District Health and Jail Renovations) - Series 2001, dated May 1, 2001, due in annual installments ranging from \$75,000 to \$200,000 through May 1, 2019, with interest ranging from 4.15 to 5.00 percent, payable semi-annually.	\$ 1,750,000
\$490,000 Gratiot County Building Authority Bonds (Mental Health Addition) - Series 1988, dated March 1, 1988, due in annual installments ranging from \$45,000 to \$50,000 through November 1, 2008, with interest of 7.80 percent, payable semi-annually.	95,000
\$2,500,000 Gratiot County Building Authority Bonds (Courthouse renovation) - Series 1994, dated February 15, 1994, due in annual installments ranging from \$150,000 to \$200,000 through May 1, 2013, with interest ranging from 4.50 to 5.00 percent, payable semi-annually.	1,100,000
\$60,000 County of Gratiot Capital Improvement Bonds (Fairgrounds) - Series 2002, dated August 26, 2002, due in semi-annual installments ranging from \$3,161 to \$3,795 through May 1, 2012, with interest of 4.099 percent, payable semi-annually.	34,694
\$1,400,000 County of Gratiot Capital Improvement Bonds (Construction) - Series 2005, dated October 1, 2005, due in annual installments ranging from \$25,000 to \$100,000 through October 1, 2025, with interest ranging from 3.75 to 4.40 percent, payable semi-annually.	1,300,000
\$205,000 County of Gratiot Capital Improvement Bonds (Site Improvements) - Series 2006, dated August 24, 2006, due in annual installments ranging from \$16,264 to \$24,706 through October 1, 2016, with interest of 4.34 percent payable semi-annually.	<u>205,000</u>
	<u>\$ 4,484,694</u>

**Direct County Obligations - Lease**

\$241,938 2007 Ford Motor Credit Lease, dated January 15, 2007, due in an installment of \$117,105 through January 15, 2008, with interest of 6.60 percent.	<u>\$ 117,105</u>
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Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE G: LONG-TERM DEBT - CONTINUED**

**PRIMARY GOVERNMENT - CONTINUED**

**Accrued Compensated Absences**

In accordance with County personnel policies and/or contracts negotiated with various employee groups of the County, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$225,276 and \$386,846 for vacation and sick, respectively, at September 30, 2007. This amount, \$612,122, has been reported as a noncurrent liability.

**COMPONENT UNIT - ROAD COMMISSION**

**Accrued Compensated Absences**

In accordance with County Road Commission personnel policies and/or contracts negotiated with various employee groups of the County Road Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$157,924 and \$154,048 for vacation and sick, respectively, at September 30, 2007. This amount, \$311,972, has been reported as a noncurrent liability.

**COMPONENT UNIT - BOARD OF PUBLIC WORKS**

**Indirect County Obligations - Water and Sewer Bonds**

The County has irrevocably pledged its full faith and credit as collateral for the following water and sewer system bonds. These projects are administered by the Gratiot County Drain Commission for local municipalities. Payments by the municipalities to the County, in accordance with contractual agreements, provide the monies required to meet the principal and interest on the water and sewer system bonds.

\$320,000 County of Gratiot, Pompeii Community Sanitary Sewer System Bonds, dated August 1, 1996, due in annual installments ranging from \$10,000 to \$20,000 through May 1, 2022, with interest ranging from 5.4 to 6.0 percent, payable semi-annually.	\$ 250,000
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\$285,000 County of Gratiot Water Supply Bonds (Village of Perrinton) Water Supply System improvements - Series 2002, dated January 1, 2002, due in annual installments ranging from \$30,000 to \$35,000 through May 1, 2012, with interest ranging from 4.30 to 4.85 percent, payable semi-annually.	<u>155,000</u>
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TOTAL WATER AND SEWER BONDS	<u>\$ 405,000</u>
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**COMPONENT UNIT - DRAINAGE DISTRICTS**

**Drain Notes**

The County has irrevocably pledged its full faith and credit as collateral for the following drain notes. These projects are administered by the Gratiot County Drain Commission for various local drainage districts. The drain notes were issued to finance the various construction projects in the noted Component Unit Capital Project Funds for the purpose of paying costs in connection with various drainage district projects and are payable out of assessments to be made against the benefited properties.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE G: LONG-TERM DEBT - CONTINUED**

**COMPONENT UNIT - DRAINAGE DISTRICTS - CONTINUED**

Notes payable at September 30, 2007, per respective Drain projects serviced from the Component Unit Debt Service Funds are as follows:

Various drain notes due in various annual installments and interest rates through 2013. \$ 2,271,941

The annual requirements to pay the debt principal and interest outstanding for the above long-term debt is as follows:

**Primary Government**

Year Ending September 30,	<u>Direct County Obligations</u>			
	<u>Bonds</u>		<u>Lease</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 392,651	\$ 200,394	\$ 117,105	\$ 7,729
2009	449,239	181,327	-	-
2010	400,278	161,572	-	-
2011	426,361	144,496	-	-
2012	402,491	126,617	-	-
2013-2017	1,388,674	406,065	-	-
2018-2022	900,000	116,938	-	-
2023-2026	<u>125,000</u>	<u>9,244</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,484,694</u>	<u>\$ 1,346,653</u>	<u>\$ 117,105</u>	<u>\$ 7,729</u>

**Component Units**

Year Ending September 30,	<u>Board of Public Works Water and Sewer Bonds</u>		<u>Drainage Districts Drain Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 40,000	\$ 21,823	\$ 775,851	\$ 103,670
2009	40,000	19,993	441,013	65,668
2010	45,000	18,093	300,870	47,642
2011	45,000	15,873	188,740	33,103
2012	50,000	13,608	179,916	24,925
2013-2017	85,000	46,095	385,551	36,714
2018-2022	<u>100,000</u>	<u>18,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 405,000</u>	<u>\$ 153,483</u>	<u>\$ 2,271,941</u>	<u>\$ 311,722</u>



Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT**

PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)

Plan Description

The County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public employee retirement system. MERS is authorized and operated under State law, Act 135 of Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time and regular part-time County employees are covered by the retirement system with the exception of the Mental Health and Road Commission employees. The Road Commission employees are covered under a separate retirement plan. Effective September 30, 2000, the MERS became a closed pension system. New hires are not allowed to participate in the MERS.

Annual Pension Cost

For the year ended September 30, 2007, the County's annual pension cost of \$684,344 for the plan was equal to the County's required contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$12,630,829	\$13,440,536	\$14,499,374
Actuarial accrued liability (AAL) (entry age)	17,708,602	18,725,489	19,714,211
Unfunded AAL	5,077,773	5,284,953	5,214,837
Funded ratio	71%	72%	74%
Covered payroll	3,248,639	3,224,956	3,144,483
UAAL as a percentage of covered payroll	156%	164%	166%
Annual pension cost	592,531	678,085	684,344
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT - CONTINUED**

**COMPONENT UNIT - ROAD COMMISSION**

**Description of Plan and Plan Assets**

The Gratiot County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MCA 5.333(a)); MCL 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

**Funding Policy**

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of their annual compensation to the plan, which amounted to \$51,246. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 10.1% for general employees and 6.01% for salaried employees, for the calendar year December 31, 2006 based on 2004 actuarial determination.

**Annual Pension Cost**

During the calendar year ended December 31, 2006, the Road Commission's contributions totaling \$226,128 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employees contributed \$51,246 in accordance with the personnel policy and bargaining unit agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer's normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

**Three year trend information for GASB Statement No. 27**

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 128,685	\$ 100	\$ -0-
2005	134,457	100	-0-
2006	226,128	100	-0-

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE H: EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT - CONTINUED**

COMPONENT UNIT - ROAD COMMISSION - CONTINUED

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/04	\$ 9,665,886	\$10,337,470	\$ 671,584	94 %	\$ 1,659,170	40 %
12/31/05	9,910,430	10,638,710	728,280	93	1,657,109	44
12/31/06	10,379,713	12,389,902	2,010,189	84	1,691,578	119

**NOTE I: EMPLOYEE RETIREMENT SYSTEM - DEFINED CONTRIBUTION**

Plan Description

The County has also established a 401 Money Purchase Plan for all new hires effective October 1, 2000, which meets the criteria of GASB Statement 27 as a Defined Contribution Plan. The Plan is administered by the International City Management Association (ICMA) Retirement Corporation, a nonprofit corporation. ICMA is an investment advisor registered with the Securities and Exchange Commission under Investment Advisors Act of 1940, as amended, and under the Uniform Securities Act, 1964 PA 265, Michigan Compiled Laws 451.501-451.818, to the extent required by law.

Funding Policy

If covered employees contribute 0% of their annual salary to the plan the County must contribute 3% of each participant's annual salary. The County will contribute 6% if the participant chooses to contribute 3% subject to limitations of sections 415 (c) and (e) of the Internal Revenue Code.

**NOTE J: CONTINGENT LIABILITIES**

The County participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The Single Audit of the Federal Programs and the periodic program compliance audits of many of the State programs have not yet been completed or final resolution has not been received. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

There are various legal actions pending against the County and its Component Units. Due to the inconclusive nature of many of the actions, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the County's potential liability, if any. Those actions for which a reasonable estimate can be determined of the County's potential liability and that would not be covered by insurance and reserves, if any, are considered by County Management and Legal Counsel to be immaterial.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE K: ROAD COMMISSION FEDERAL GRANTS**

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2007, the Federal aid received and expended by the Gratiot County Road Commission was \$1,148,782 for contracted projects. The Road Commission neither received nor expended any federal money for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission. Due to these facts, all of these funds have been excluded from the County's Single Audit, which is presented under separate cover.

**NOTE L: RISK MANAGEMENT**

**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)**

The County participates in a pool, the Michigan Counties' Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The County has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The County is a voluntary member of the Michigan Municipal Risk Management Authority which is organized under Public Act 138 of 1982, as amended as a governmental group self-insurance pool. Public Act 138 authorizes local units of government to exercise jointly any power, privilege, or authority which each might exercise separately. The Authority administers a risk management fund providing Gratiot County with loss protection for general and auto liability, motor vehicle, and physical damage and property damage.

The administration of the Authority is directed by a nine (9) member Board of Directors composed of municipal representatives from the membership elected by the membership. The Board establishes the general policy of the Authority, creates and publishes rules to be followed by the Manager and Board, and is empowered with the authority to impose sanctions or terminate membership. The County, by resolution of the County Board of Commissioners, has designated a representative to the Authority to be responsible for the execution of all loss control measures, to ensure the payment of all annual and supplementary or other payment requirements, to ensure the filing of all required reports, and to act as a liaison between the County and the Authority.

The Authority provides risk management, underwriting, reinsurance, and claim services with member contributions allocated to meet these obligations. The Authority administers a risk management fund providing Gratiot County with loss protection for general and auto liability, and property damage. Under most circumstances the County's maximum loss per occurrence is limited as follows:

<u>Type of Risk</u>	<u>Maximum Retention Per Occurrence</u>
General and auto liability	\$ 100,000
Property coverage	10,000

The Authority has established a Retained Risk Program to pay losses incurred by members that exceed individual retention levels and are not covered under existing reinsurance agreements. Losses incurred within the established limits are general obligations of the Authority. In the event that losses are incurred in excess of the resources available, the Authority as a whole (i.e., all constituent municipalities) is liable for the excess. The Authority may authorize dividends to individual members in the event that the members and individual fund balance is determined to be sufficient to do so.

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE L: RISK MANAGEMENT - CONTINUED**

**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED**

In addition, the Authority has accumulated resources to create and fund an Internal Stop Loss Fund. The Stop Loss Fund was initiated to eliminate the need to purchase aggregate reinsurance for aggregate losses paid in excess of \$126,000 net of reinsurance for any one (1) member in any one (1) year. Aggregate paid losses in excess of \$126,000 net of reinsurance recoveries are paid entirely from the Internal Stop Loss Fund. If at any time the Stop Loss Fund resources are insufficient to fund losses, the remaining liability shall become the responsibility of the Authority as a whole.

At September 30, 2007, the County had funds on deposit of \$33,222 with the Authority in the Member Retention Funds. The Authority's reported reserves at September 30, 2007, for reported claims related to the County was \$27,752.

**COMPONENT UNIT - ROAD COMMISSION**

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Gratiot County Road Commission became a charter member in 1982.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason, the Pool's resources available to pay losses are depleted, the payment of all unpaid losses for the member is the sole obligation of the member.

**NOTE M: PROPERTY TAXES AND TAXES RECEIVABLE**

The County property tax is levied each December 1 and July 1 on the taxable valuation of property located in the County as of the preceding December 31.

Beginning with the 2004 tax levy the State has mandated the creation of a Revenue Sharing Reserve fund into which one-third of the County's 2004 to 2006 ad valorem operating tax is being recognized. The purpose of the fund is to accumulate reserves of the County's own local funds from which an amount similar to Revenue Sharing payments, formerly made by the State, will be made back to the General Fund. As part of this process, the County's tax levy has shifted over the past three years from winter to summer.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE M: PROPERTY TAXES AND TAXES RECEIVABLE - CONTINUED**

The County's Winter 2006 and Summer 2007 ad valorem taxes were levied and collectible on December 1, 2006, and July 1, 2007, respectively. It is the County's policy to recognize revenues from the tax levy in the year when the proceeds of the levy are budgeted and made available for the financing of County operations. As a result, the County's Winter 2006 and Summer 2007 tax levies have been recognized as revenue in the current fiscal year. The 2006 and 2007 taxable value of Gratiot County amounted to \$813,877,460 and \$852,677,761, respectively, on which ad valorem taxes levied for County general operating purposes consisted of 1.8827 mills for Winter 2006 and 5.5373 mills for Summer 2007. The Gratiot County Commission on Aging has levied .6500 mills for services related to the aging within the County. The Gratiot County Parks have levied .3498 mills for services related to parks and recreation within the County. The Gratiot County Road Patrol has levied .4500 mills for services related to public safety within the County.

By resolution of the Board of Commissioners and agreement with various taxing authorities, the County purchased at face value the real property taxes receivable returned delinquent on March 1, 2007. Subsequent collections of delinquent taxes receivable, plus interest thereon and investment earnings, are used to repay the funds distributed by the Delinquent Tax Revolving Fund. This activity is accounted for in the Delinquent Tax Revolving (Enterprise) Fund.

**NOTE N: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance which the County has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management plans for these funds.

The following are the various fund balance reserves and designations as of September 30, 2007:

PRIMARY GOVERNMENT

General Fund

Reserved for prepaids	\$ 63,739
Reserved for advance to other governmental unit	<u>292,528</u>
	356,267

Nonmajor governmental funds

Reserved for parks	37,255
Reserved for prepaids	<u>1,495</u>
	<u>38,750</u>
	<u>\$ 395,017</u>

General Fund

Designated for

Private donations	\$ 1,056
Handicap activities	4,698
Programming activities	4,050
Veterans activities	150
Renaissance zone	171,077
Circuit Court Counsel	39,767
Prosecuting Attorney	54,892
Liquor law enforcement	<u>12,684</u>
	<u>\$ 288,374</u>

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE Q: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of September 30, 2007:

**PRIMARY GOVERNMENT**

Governmental activities

Restricted for

Public safety

Drug law enforcement	\$ 22,532
COPS Grant	39,321
Secondary road patrol	253
Michigan justice training	8,514
Road Patrol	378,723
Corrections officer training	<u>38,391</u>

\$ 487,734

Other purposes

Mental health lease	\$ 65,105
Solid waste planning	887
Emergency contingency	25,000
Law library	18,000
Commission on aging	102,853
Community development	31,171
Clinton County child care	27,582
Public improvement	180,705
Social welfare	15,485
Revenue sharing reserve	1,602,495
Gratiot County child welfare	22,633
Child care - juvenile	313
Fraker Trust	37,255
Parks	<u>199,185</u>

\$ 2,328,669

Capital improvement

\$ 188,141

**COMPONENT UNIT**

Road Commission

Restricted for County roads	<u>\$ 2,050,973</u>
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**NOTE P: POST-EMPLOYMENT BENEFITS**

**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION)**

In addition to providing pension benefits, the County provides certain health care benefits for employees who retired on or after 1987. Substantially all of the County's employees may become eligible for those benefits if they reach the normal retirement age of 60 with at least ten (10) years of credited service, or reach the age of 55 with at least 25 years of credited service, while working for the County. The County will pay \$500 per year toward the cost of health insurance premiums and an additional \$200 per year for each year of credited service over ten (10) years, up to a maximum of \$2,500 for all employees except sheriff's union employees, which receive up to a maximum of \$3,500.

Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE P: POST-EMPLOYMENT BENEFITS - CONTINUED**

**PRIMARY GOVERNMENT AND COMPONENT UNITS (EXCEPT ROAD COMMISSION) - CONTINUED**

Upon reaching the age of 65, the County provided benefits are reduced to \$55.60 per month, plus 1/2 of the increase in premium cost over this amount. This reduction is due to the retirees becoming eligible for Medicare coverage at that time.

The cost of retirees' health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended September 30, 2007, those costs totaled \$66,189. In addition, \$1,532 was paid for life insurance premiums. These costs were paid for by all applicable funds based on approved full-time equivalents (FTE's).

**COMPONENT UNIT - ROAD COMMISSION**

Effective August 1, 2000 for road commission union employees and December 1, 2000 for road commission salaried employees, the Road Commission agrees to pay \$400 per month towards the hospitalization coverage premium for any employee who retires after the effective date (August 1, 2000 for union and December 1, 2000 for salaried employees), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. Two people qualified under this policy during the fiscal year ending September 30, 2007.

Effective August 1, 2003, the Road Commission agrees to pay \$600 per month towards the hospitalization coverage premium for any employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2007.

Effective March 1, 2006, the Road Commission agrees to pay the first \$500 per month towards the hospitalization coverage premium for any union employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. Retirees that are eligible for this benefit may choose to opt out of the retiree hospitalization coverage and receive in lieu of said coverage 50% of the amount the employer would otherwise have been required to pay, provided the retiree can provide documentation proving that the salaried employee has comparable health care coverage. Payment will be approved annually at the first board meeting in January of each year. One person qualified under this policy during the fiscal year ending September 30, 2007.

Effective February 1, 2006, the Road Commission agrees to pay the first \$350 per month towards the hospitalization coverage premium for any salaried employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2007.

The Road Commission funds this benefit on a pay-as-you-go-basis and contributed \$24,750 for hospitalization benefits during the fiscal year ended September 30, 2007.

**UPCOMING REPORTING CHANGE**

The Governmental Accounting Standards Board has recently related Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending September 30, 2008.



Gratiot County, Michigan

NOTES TO FINANCIAL STATEMENTS

September 30, 2007

**NOTE Q: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

In the body of the financial statements, the County's budgeted expenditures in the General Fund and major Special Revenue Funds have been shown at the activity level. The approved budgets of the County have been adopted at the activity level for the General Fund and the total expenditure level for the major Special Revenue Funds.

During the year ended September 30, 2007, the County incurred expenditures in the General Fund and Revenue Sharing Reserve Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Other	\$ 13,600	\$ 13,902	\$ 302
Special Revenue Funds			
Revenue Sharing Reserve	802,000	807,504	5,504

**NOTE R: PRIOR PERIOD ADJUSTMENT**

The following prior period adjustment was made during the period, which was the result of the correction of an accounting error. This adjustment was reported as a change to the beginning fund balance. The effect on operations and other affected balances for the current and prior period are as follows:

	<u>September 30,</u>		<u>Description</u>
	<u>2007</u>	<u>2006</u>	
COMPONENT UNITS			
Drainage Districts			
Regular Drain			
Cash	\$ -	\$ 482,784	Correct understated
Change in net assets	-	482,784	cash
Fund balance - beginning	482,784	-	

**NOTE S: RESTATEMENT OF NET ASSETS**

Beginning net assets for the Drainage Districts component unit were restated by \$73,033 to correct the net effect of the errors related to the accounting for an inter-county drain project that began in 2006 that Midland County was the Treasurer for. This restatement records the County's portion of the net assets they had in the project at September 30, 2006 that were previously unrecorded in the County's records.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND  
OTHER FINANCING SOURCES

Year Ended September 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Current and delinquent property taxes	\$ 5,638,671	\$ 5,675,671	\$ 5,822,858	\$ 147,187
Personal property taxes	522,376	522,376	386,018	(136,358)
Payments in lieu of taxes	19,825	19,825	15,011	(4,814)
Mobile home park taxes	3,500	3,655	4,249	594
Industrial facility tax	124,124	124,124	89,874	(34,250)
Interest and penalty	1,000	10,000	10,082	82
Total taxes	6,309,496	6,355,651	6,328,092	(27,559)
Licenses and permits				
Dog licenses	131,000	98,700	99,399	699
Other licenses and permits	31,500	40,050	40,624	574
Total licenses and permits	162,500	138,750	140,023	1,273
Intergovernmental				
Federal/State				
Prosecuting Attorney CRP	46,000	48,000	48,901	901
Sheriff - inmate housing	20,000	28,250	28,471	221
Sheriff - diverted felon	25,000	24,500	24,504	4
Convention facility liquor tax	79,493	91,503	91,502	(1)
Victims' Rights	41,200	41,960	41,666	(294)
Judges standardization	91,448	91,448	91,448	-0-
Probate court judge	94,195	94,195	94,195	-0-
Juvenile court director	27,318	27,318	27,317	(1)
State caseload assistance	26,872	58,940	59,262	322
Tobacco - juvenile	350	350	-	(350)
Cigarette tax	25,000	25,000	24,974	(26)
Court equity/cost	275,000	304,500	287,786	(16,714)
Emergency management	33,958	16,495	16,161	(334)
Remonumentation grant	60,000	77,225	76,196	(1,029)
Bullet proof vest grant	1,000	3,400	3,416	16
Communications equipment grant	-	1,655	1,652	(3)
Local	103,000	106,635	106,495	(140)
Total intergovernmental	949,834	1,041,374	1,023,946	(17,428)

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND  
OTHER FINANCING SOURCES - CONTINUED

Year Ended September 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES - CONTINUED</b>				
Charges for services				
Sheriff	\$ 79,800	\$ 82,045	\$ 80,983	\$ (1,062)
Treasurer fees	5,000	7,000	7,050	50
Information management	1,250	50	33	(17)
District Court	1,122,000	1,249,575	1,250,605	1,030
Circuit Court	3,500	1,900	1,723	(177)
Prosecuting Attorney	2,400	1,750	1,668	(82)
Juvenile Court	51,000	65,000	54,447	(10,553)
Clerk	142,550	149,080	149,326	246
Register of deeds	260,000	247,000	247,656	656
Equalization	1,900	825	896	71
Probate Court	32,350	28,155	28,551	396
Animal control	6,000	5,850	6,120	270
Remonumentation	9,500	9,500	9,000	(500)
Liquor law enforcement	10,000	10,705	10,704	(1)
Fairground fee	7,745	7,745	7,745	-0-
Tax administration fee	62,500	69,450	86,410	16,960
Total charges for services	1,797,495	1,935,630	1,942,917	7,287
Fines and forfeits				
Bond forfeitures	1,700	1,250	690	(560)
District Court	76,000	85,000	85,715	715
Total fines and forfeits	77,700	86,250	86,405	155
Interest and rents				
Interest on investments	25,000	53,300	63,179	9,879
Rents	7,865	7,865	7,865	-0-
Total interest and rents	32,865	61,165	71,044	9,879
Other				
Sale of capital assets	70,000	48,650	48,625	(25)
Reimbursements - indirect costs	152,850	161,245	161,724	479
Reimbursements - direct costs	62,240	29,985	29,807	(178)
Reimbursements - other	47,900	41,600	36,126	(5,474)
Other	1,550	8,640	9,599	959
Total other	334,540	290,120	285,881	(4,239)
<b>TOTAL REVENUES</b>	<b>9,664,430</b>	<b>9,908,940</b>	<b>9,878,308</b>	<b>(30,632)</b>

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND  
OTHER FINANCING SOURCES - CONTINUED

Year Ended September 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES				
Transfers in				
Revenue sharing reserve	\$ 801,340	\$ 807,504	\$ 807,504	\$ -0-
Delinquent tax revolving	493,508	494,451	494,451	-0-
Total transfers in	<u>1,294,848</u>	<u>1,301,955</u>	<u>1,301,955</u>	<u>-0-</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>\$ 10,959,278</u>	<u>\$ 11,210,895</u>	<u>\$ 11,180,263</u>	<u>\$ (30,632)</u>

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND  
OTHER FINANCING USES BY ACTIVITY

Year Ended September 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES				
General government				
Circuit Court	\$ 221,595	\$ 228,465	\$ 226,401	\$ 2,064
District Court	711,021	720,706	717,832	2,874
Probate Court	310,240	316,000	315,687	313
Juvenile Court	137,468	144,942	137,554	7,388
Board of Commissioners	166,718	188,000	187,588	412
County Administrator	167,042	166,646	166,326	320
Elections	69,497	44,906	39,916	4,990
Clerk	267,239	252,255	245,786	6,469
Equalization	142,647	137,191	135,121	2,070
Prosecuting Attorney	581,459	557,966	554,066	3,900
Register of Deeds	181,195	163,133	157,625	5,508
County survey and remonumentation	67,302	93,000	92,962	38
Treasurer	217,937	211,913	209,801	2,112
Cooperative extension	79,708	86,000	85,637	363
Information management	157,041	156,159	138,754	17,405
Buildings and grounds	387,211	398,715	377,906	20,809
Drain commissioner	379,425	374,600	372,004	2,596
Gratiot community airport	35,000	35,000	35,000	-0-
Other	13,600	13,600	13,902	(302)
Insurance and bonds	149,000	130,010	129,100	910
Total general government	4,442,345	4,419,207	4,338,968	80,239
Public safety				
Sheriff - general	1,353,719	1,362,935	1,342,243	20,692
Jail	1,377,333	1,339,333	1,329,674	9,659
Liquor law enforcement	10,000	13,100	13,062	38
Planning commission	1,790	1,790	1,295	495
Emergency services	62,776	46,200	46,155	45
Animal control	133,772	137,407	135,655	1,752
Total public safety	2,939,390	2,900,765	2,868,084	32,681
Public works				
Department of public works	1,077	1,077	-	1,077

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND  
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended September 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES - CONTINUED				
Health and welfare				
Mid-Michigan District Health Department	\$ 272,478	\$ 272,478	\$ 271,107	\$ 1,371
Gratiot Community Mental Health	200,000	200,000	200,000	-0-
Contagious disease	4,000	7,000	6,939	61
Substance abuse appropriation	40,600	46,355	45,751	604
Medical examiner	40,411	61,411	59,730	1,681
Veterans counselor	27,655	27,655	24,889	2,766
Veterans burials	8,000	7,000	5,518	1,482
Total health and welfare	593,144	621,899	613,934	7,965
Community and economic development				
East-Central Michigan Planning	5,500	5,500	5,500	-0-
Greater Gratiot Development	85,078	85,078	85,038	40
Plat board	538	538	311	227
Renaissance zone	500	500	-	500
Zoning board	1,964	1,964	691	1,273
Total community and economic development	93,580	93,580	91,540	2,040
TOTAL EXPENDITURES	8,069,536	8,036,528	7,912,526	124,002

Gratiot County, Michigan

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND  
OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended September 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING USES				
Transfers out				
Friend of the court	\$ 30,000	\$ 32,473	\$ 32,473	\$ -0-
Revenue sharing reserve	1,367,058	1,367,058	1,367,058	-0-
Social welfare	5,500	8,000	8,000	-0-
Child care - juvenile fund	748,596	755,122	754,122	1,000
Gratiot county child welfare	60,000	96,276	90,490	5,786
Marine safety	1,000	1,000	-	1,000
Soldiers and sailors	2,000	2,000	1,100	900
Building authority - jail	177,499	223,649	162,525	61,124
Courthouse renovation	208,438	208,438	208,438	-0-
Fairground improvement	7,745	7,745	7,745	-0-
2005 G.O. Bonds	54,418	54,418	54,418	-0-
Secondary road patrol	46,600	59,100	59,100	-0-
COPS grant	55,388	55,388	55,388	-0-
Capital improvement	124,900	124,900	124,797	103
Community corrections	-	2,000	2,000	-0-
Fringe benefits	-	176,200	176,200	-0-
K-9 unit sheriff	600	600	600	-0-
Total transfers out	2,889,742	3,174,367	3,104,454	69,913
TOTAL EXPENDITURES AND OTHER FINANCING USES	\$ 10,959,278	\$ 11,210,895	\$ 11,016,980	\$ 193,915



Gratiot County, Michigan  
Revenue Sharing Reserve Fund  
BUDGETARY COMPARISON SCHEDULE  
Year Ended September 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES	\$ -	\$ -	\$ -	\$ -0-
EXPENDITURES	-	-	-	-0-
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	-0-	-0-
OTHER FINANCING SOURCES (USES)				
Transfers in	1,367,058	1,367,058	1,367,058	-0-
Transfers out	(802,000)	(802,000)	(807,504)	(5,504)
TOTAL OTHER FINANCING SOURCES (USES)	565,058	565,058	559,554	(5,504)
NET CHANGE IN FUND BALANCE	565,058	565,058	559,554	(5,504)
Fund balance, beginning of year	1,042,941	1,042,941	1,042,941	-0-
Fund balance, end of year	<u>\$ 1,607,999</u>	<u>\$ 1,607,999</u>	<u>\$ 1,602,495</u>	<u>\$ (5,504)</u>

## **OTHER SUPPLEMENTARY INFORMATION**

Gratiot County, Michigan  
Nonmajor Governmental Funds  
COMBINING BALANCE SHEET  
September 30, 2007

	Special		
	Friend of the Court	Mental Health Lease	Solid Waste Planning
<b>ASSETS</b>			
Cash and cash equivalents	\$ (40,127)	\$ 65,105	\$ 887
Investments - restricted	-	-	-
Accounts receivable	-	-	-
Due from other governmental units - Federal/State	55,733	-	-
Prepays	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 15,606</u>	<u>\$ 65,105</u>	<u>\$ 887</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,103	\$ -	\$ -
Accrued payroll	-	-	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	1,103	-0-	-0-
<b>FUND BALANCES</b>			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	14,503	65,105	887
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>14,503</u>	<u>65,105</u>	<u>887</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 15,606</u>	<u>\$ 65,105</u>	<u>\$ 887</u>

Revenue					
Building Inspection	Register of Deeds	Emergency Contingency	Drug Law Enforcement	Law Enforcement	Law Library
\$ 8,320	\$ 76,137	\$ 25,000	\$ 22,532	\$ 13,908	\$ 18,000
-	-	-	-	-	-
-	200	-	-	878	-
-	-	-	-	-	-
-	855	-	-	-	-
<u>\$ 8,320</u>	<u>\$ 77,192</u>	<u>\$ 25,000</u>	<u>\$ 22,532</u>	<u>\$ 14,786</u>	<u>\$ 18,000</u>
\$ 482	\$ 357	\$ -	\$ -	\$ -	\$ -
3,838	-	-	-	-	-
-	-	-	-	-	-
4,320	357	-0-	-0-	-0-	-0-
-	-	-	-	-	-
-	855	-	-	-	-
4,000	75,980	25,000	22,532	14,786	18,000
-	-	-	-	-	-
-	-	-	-	-	-
<u>4,000</u>	<u>76,835</u>	<u>25,000</u>	<u>22,532</u>	<u>14,786</u>	<u>18,000</u>
<u>\$ 8,320</u>	<u>\$ 77,192</u>	<u>\$ 25,000</u>	<u>\$ 22,532</u>	<u>\$ 14,786</u>	<u>\$ 18,000</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2007

	Special		
	Disaster Fund	Commission on Aging	D.A.R.E. Program
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 127,667	\$ 5,051
Investments - restricted	-	-	-
Accounts receivable	-	28,881	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	60	-
<b>TOTAL ASSETS</b>	<u>\$ -0-</u>	<u>\$ 156,608</u>	<u>\$ 5,051</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 41,001	\$ -
Accrued payroll	-	12,754	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	-0-	53,755	-0-
<b>FUND BALANCES</b>			
Reserved for			
Parks	-	-	-
Prepays	-	60	-
Unreserved			
Undesignated, reported in			
Special revenue funds	-	102,793	5,051
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES</b>	<u>-0-</u>	<u>102,853</u>	<u>5,051</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ -0-</u>	<u>\$ 156,608</u>	<u>\$ 5,051</u>

Revenue

Secondary Road Patrol	Clinton County Child Care	COPS Grant	D.H.S. State Monies	Gratiot County Child Welfare	Soldiers & Sailors
\$ 3,862	\$ 25,782	\$ 11,970	\$ (7,154)	\$ 22,433	\$ 238
-	-	-	-	-	-
-	-	-	-	-	-
-	1,800	32,005	22,434	200	-
-	-	-	-	-	-
<u>\$ 3,862</u>	<u>\$ 27,582</u>	<u>\$ 43,975</u>	<u>\$ 15,280</u>	<u>\$ 22,633</u>	<u>\$ 238</u>
\$ 628	\$ -	\$ 331	\$ -	\$ -	\$ 225
2,981	-	4,323	-	-	-
-	-	-	-	-	-
3,609	-0-	4,654	-0-	-0-	225
-	-	-	-	-	-
-	-	-	-	-	-
253	27,582	39,321	15,280	22,633	13
-	-	-	-	-	-
-	-	-	-	-	-
<u>253</u>	<u>27,582</u>	<u>39,321</u>	<u>15,280</u>	<u>22,633</u>	<u>13</u>
<u>\$ 3,862</u>	<u>\$ 27,582</u>	<u>\$ 43,975</u>	<u>\$ 15,280</u>	<u>\$ 22,633</u>	<u>\$ 238</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2007

	Special		
	Veteran Trust	Veterans Memorial	Animal Control
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,116	\$ 11,372	\$ 7,815
Investments - restricted	-	-	-
Accounts receivable	-	-	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 1,116</b>	<b>\$ 11,372</b>	<b>\$ 7,815</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ -	\$ 40
Accrued payroll	-	-	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-0-</b>	<b>-0-</b>	<b>40</b>
<b>FUND BALANCES</b>			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	1,116	11,372	7,775
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>1,116</b>	<b>11,372</b>	<b>7,775</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,116</b>	<b>\$ 11,372</b>	<b>\$ 7,815</b>

Revenue					
Marine Safety	Fraker Trust	Michigan Justice Training	Brownfield Redevelopment	K-9 Unit Sheriff	Correction Officers Training Fund
\$ 2,657	\$ 2,284	\$ 9,223	\$ 7,537	\$ 918	\$ 40,451
-	35,000	-	-	-	-
1,420	804	-	-	-	-
-	-	-	-	-	-
-	-	550	-	-	30
<u>\$ 4,077</u>	<u>\$ 38,088</u>	<u>\$ 9,773</u>	<u>\$ 7,537</u>	<u>\$ 918</u>	<u>\$ 40,481</u>
\$ 17	\$ 833	\$ 1,259	\$ -	\$ 63	\$ 2,090
-	-	-	-	-	-
-	-	-	-	-	-
17	833	1,259	-0-	63	2,090
-	37,255	-	-	-	-
-	-	550	-	-	30
4,060	-	7,964	7,537	855	38,361
-	-	-	-	-	-
-	-	-	-	-	-
<u>4,060</u>	<u>37,255</u>	<u>8,514</u>	<u>7,537</u>	<u>855</u>	<u>38,391</u>
<u>\$ 4,077</u>	<u>\$ 38,088</u>	<u>\$ 9,773</u>	<u>\$ 7,537</u>	<u>\$ 918</u>	<u>\$ 40,481</u>



Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2007

	Homeless Veterans Fund	Special Child Care - Juvenile Fund	C.D.B.G.
<b>ASSETS</b>			
Cash and cash equivalents	\$ 910	\$ 2,111	\$ 53,465
Investments - restricted	-	-	-
Accounts receivable	-	-	-
Due from other governmental units - Federal/State	-	6,555	-
Prepays	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 910</b>	<b>\$ 8,666</b>	<b>\$ 53,465</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 8,353	\$ 419
Accrued payroll	-	-	-
Due to other governmental units	-	-	21,875
<b>TOTAL LIABILITIES</b>	<b>-0-</b>	<b>8,353</b>	<b>22,294</b>
<b>FUND BALANCES</b>			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	910	313	31,171
Debt service funds	-	-	-
Capital projects funds	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>910</b>	<b>313</b>	<b>31,171</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 910</b>	<b>\$ 8,666</b>	<b>\$ 53,465</b>

Revenue					
Social Welfare	Parks and Recreation	Geographic Information System	Salvage Inspection Fee	Road Patrol	Community Corrections
\$ 47,510	\$ 207,624	\$ 581	\$ 14,475	\$ 378,598	\$ (8,457)
-	-	-	-	-	-
-	583	-	-	125	-
-	-	-	-	-	10,446
-	-	-	-	-	-
<u>\$ 47,510</u>	<u>\$ 208,207</u>	<u>\$ 581</u>	<u>\$ 14,475</u>	<u>\$ 378,723</u>	<u>\$ 1,989</u>
\$ -	\$ 8,402	\$ 15	\$ 2,578	\$ -	\$ 136
-	620	-	-	-	1,686
32,025	-	-	-	-	-
32,025	9,022	15	2,578	-0-	1,822
-	-	-	-	-	-
-	-	-	-	-	-
15,485	199,185	566	11,897	378,723	167
-	-	-	-	-	-
-	-	-	-	-	-
<u>15,485</u>	<u>199,185</u>	<u>566</u>	<u>11,897</u>	<u>378,723</u>	<u>167</u>
<u>\$ 47,510</u>	<u>\$ 208,207</u>	<u>\$ 581</u>	<u>\$ 14,475</u>	<u>\$ 378,723</u>	<u>\$ 1,989</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

September 30, 2007

	Special Revenue		Capital Projects
	Public Improvement - General	Public Improvement - Central Dispatch	Construction Fund
<b>ASSETS</b>			
Cash and cash equivalents	\$ 21,646	\$ 164,447	\$ 241,313
Investments - restricted	-	-	-
Accounts receivable	50	725	-
Due from other governmental units - Federal/State	-	-	-
Prepays	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 21,696</u>	<u>\$ 165,172</u>	<u>\$ 241,313</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 6,163	\$ -	\$ 53,172
Accrued payroll	-	-	-
Due to other governmental units	-	-	-
<b>TOTAL LIABILITIES</b>	6,163	-0-	53,172
<b>FUND BALANCES</b>			
Reserved for			
Parks	-	-	-
Prepays	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	15,533	165,172	-
Debt service funds	-	-	-
Capital projects funds	-	-	188,141
<b>TOTAL FUND BALANCES</b>	<u>15,533</u>	<u>165,172</u>	<u>188,141</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 21,696</u>	<u>\$ 165,172</u>	<u>\$ 241,313</u>

Debt Service					Total Nonmajor Governmental Funds
Mental Health Debt	Building Authority - Jail	Courthouse Renovation	Fairground Improvement	2005 G.O. Bonds	
\$ -	\$ 4,334	\$ 2,132	\$ -	\$ 1,519	\$ 1,595,192
-	-	-	-	-	35,000
-	-	-	-	-	33,666
-	-	-	-	-	129,173
-	-	-	-	-	1,495
<u>\$ -0-</u>	<u>\$ 4,334</u>	<u>\$ 2,132</u>	<u>\$ -0-</u>	<u>\$ 1,519</u>	<u>\$ 1,794,526</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127,667
-	-	-	-	-	26,202
-	-	-	-	-	53,900
-0-	-0-	-0-	-0-	-0-	207,769
-	-	-	-	-	37,255
-	-	-	-	-	1,495
-	-	-	-	-	1,351,881
-	4,334	2,132	-	1,519	7,985
-	-	-	-	-	188,141
-0-	4,334	2,132	-0-	1,519	1,586,757
<u>\$ -0-</u>	<u>\$ 4,334</u>	<u>\$ 2,132</u>	<u>\$ -0-</u>	<u>\$ 1,519</u>	<u>\$ 1,794,526</u>

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended September 30, 2007

	Special		
	Friend of the Court	Mental Health Lease	Solid Waste Planning
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental			
Federal/State	427,726	-	-
Local	-	-	-
Charges for services	40,019	-	-
Fines and forfeits	-	-	-
Interest and rents	-	48,770	-
Other	2,787	-	-
TOTAL REVENUES	470,532	48,770	-0-
EXPENDITURES			
Current			
General government	486,029	-	-
Public safety	-	-	-
Health and welfare	-	-	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	486,029	-0-	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(15,497)	48,770	-0-
OTHER FINANCING SOURCES (USES)			
Capital lease proceeds	-	-	-
Transfers in	32,473	-	-
Transfers out	-	(54,954)	-
TOTAL OTHER FINANCING SOURCES (USES)	32,473	(54,954)	-0-
NET CHANGE IN FUND BALANCES	16,976	(6,184)	-0-
Fund balances (deficits), beginning of year	(2,473)	71,289	887
Fund balances, end of year	\$ 14,503	\$ 65,105	\$ 887

Revenue					
Building Inspection	Register of Deeds	Emergency Contingency	Drug Law Enforcement	Law Enforcement	Law Library
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
114,364	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	41,375	-	64	-	-
-	-	-	145	-	4,500
768	3,847	-	1,254	567	720
39	-	-	898	5,828	-
115,171	45,222	-0-	2,361	6,395	5,220
-	31,441	-	-	-	-
126,011	-	-	4,770	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
126,011	31,441	-0-	4,770	-0-	-0-
(10,840)	13,781	-0-	(2,409)	6,395	5,220
-	-	-	-	-	-
-	-	-	-	-	-
(3,000)	(13,000)	-	-	-	-
(3,000)	(13,000)	-0-	-0-	-0-	-0-
(13,840)	781	-0-	(2,409)	6,395	5,220
17,840	76,054	25,000	24,941	8,391	12,780
\$ 4,000	\$ 76,835	\$ 25,000	\$ 22,532	\$ 14,786	\$ 18,000

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2007

	Special		
	Disaster Fund	Commission on Aging	D.A.R.E. Program
REVENUES			
Taxes	\$ -	\$ 530,468	\$ -
Licenses and permits	-	-	-
Intergovernmental			
Federal/State	-	288,955	-
Local	-	-	-
Charges for services	-	34,330	-
Fines and forfeits	-	-	-
Interest and rents	-	10,331	404
Other	-	8,605	450
TOTAL REVENUES	-0-	872,689	854
EXPENDITURES			
Current			
General government	-	-	-
Public safety	5,375	-	4,869
Health and welfare	-	864,734	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	5,375	864,734	4,869
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,375)	7,955	(4,015)
OTHER FINANCING SOURCES (USES)			
Capital lease proceeds	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
NET CHANGE IN FUND BALANCES	(5,375)	7,955	(4,015)
Fund balances (deficits), beginning of year	5,375	94,898	9,066
Fund balances, end of year	\$ -0-	\$ 102,853	\$ 5,051

Revenue					
Secondary Road Patrol	Clinton County Child Care	COPS Grant	D.H.S. State Monies	Gratiot County Child Welfare	Soldiers & Sailors
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
115,745	565,016	32,005	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	230,640	5,604	-
115,745	565,016	32,005	230,640	5,604	-0-
-	-	-	-	-	-
156,192	-	175,356	-	-	-
-	585,835	-	226,956	187,510	1,707
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
24,000	-	-	-	-	-
180,192	585,835	175,356	226,956	187,510	1,707
(64,447)	(20,819)	(143,351)	3,684	(181,906)	(1,707)
-	-	-	-	-	-
59,100	-	55,388	-	180,980	1,100
-	-	-	-	-	-
59,100	-0-	55,388	-0-	180,980	1,100
(5,347)	(20,819)	(87,963)	3,684	(926)	(607)
5,600	48,401	127,284	11,596	23,559	620
\$ 253	\$ 27,582	\$ 39,321	\$ 15,280	\$ 22,633	\$ 13



Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2007

	Special		
	Veteran Trust	Veterans Memorial	Animal Control
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental			
Federal/State	7,490	-	-
Local	-	-	-
Charges for services	-	-	1,005
Fines and forfeits	-	-	-
Interest and rents	-	601	-
Other	-	382	-
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	7,490	983	1,005
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	1,190
Health and welfare	6,681	-	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	6,681	-0-	1,190
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	809	983	(185)
OTHER FINANCING SOURCES (USES)			
Capital lease proceeds	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
NET CHANGE IN FUND BALANCES	809	983	(185)
Fund balances (deficits), beginning of year	307	10,389	7,960
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	\$ 1,116	\$ 11,372	\$ 7,775
	<hr/>	<hr/>	<hr/>

Revenue					
Marine Safety	Fraker Trust	Michigan Justice Training	Brownfield Redevelopment	K-9 Unit Sheriff	Correction Officers Training Fund
\$ -	\$ -	\$ -	\$ 19,139	\$ -	\$ -
-	-	-	-	-	-
1,420	-	4,850	-	-	-
-	-	-	-	-	-
-	-	-	1,000	-	13,438
-	-	-	-	-	-
-	1,663	-	212	-	1,774
-	-	-	-	1,000	330
1,420	1,663	4,850	20,351	1,000	15,542
-	-	-	-	-	-
1,436	-	6,732	-	930	6,068
-	-	-	-	-	-
-	-	-	18,492	-	-
-	1,991	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,436	1,991	6,732	18,492	930	6,068
(16)	(328)	(1,882)	1,859	70	9,474
-	-	-	-	-	-
-	-	-	-	600	-
-	-	-	-	-	-
-0-	-0-	-0-	-0-	600	-0-
(16)	(328)	(1,882)	1,859	670	9,474
4,076	37,583	10,396	5,678	185	28,917
\$ 4,060	\$ 37,255	\$ 8,514	\$ 7,537	\$ 855	\$ 38,391

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2007

		Special	
	Homeless Veterans Fund	Child Care - Juvenile Fund	C.D.B.G.
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental			
Federal/State	-	385,034	49,944
Local	-	-	-
Charges for services	-	33,336	-
Fines and forfeits	-	-	-
Interest and rents	-	-	2,621
Other	20	-	-
TOTAL REVENUES	20	418,370	52,565
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Health and welfare	-	1,059,663	-
Community and economic development	-	-	94,217
Recreation and cultural	-	-	-
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	-0-	1,059,663	94,217
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	20	(641,293)	(41,652)
OTHER FINANCING SOURCES (USES)			
Capital lease proceeds	-	-	-
Transfers in	-	754,122	-
Transfers out	-	(90,490)	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	663,632	-0-
NET CHANGE IN FUND BALANCES	20	22,339	(41,652)
Fund balances (deficits), beginning of year	890	(22,026)	72,823
Fund balances, end of year	\$ 910	\$ 313	\$ 31,171

Revenue					
Social Welfare	Parks and Recreation	Geographic Information System	Salvage Inspection Fee	Road Patrol	Community Corrections
\$ -	\$ 285,595	\$ -	\$ -	\$ 366,439	\$ -
-	-	-	-	-	-
-	-	-	-	-	17,903
-	-	-	-	-	-
-	-	-	8,975	-	-
-	-	-	-	-	-
-	10,833	145	-	12,284	-
9,085	236	687	-	-	-
9,085	296,664	832	8,975	378,723	17,903
-	-	5,863	2,578	-	-
-	-	-	-	-	19,736
21,503	-	-	-	-	-
-	-	-	-	-	-
-	186,752	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
21,503	186,752	5,863	2,578	-0-	19,736
(12,418)	109,912	(5,031)	6,397	378,723	(1,833)
-	-	-	-	-	-
8,000	-	-	-	-	2,000
-	-	-	-	-	-
8,000	-0-	-0-	-0-	-0-	2,000
(4,418)	109,912	(5,031)	6,397	378,723	167
19,903	89,273	5,597	5,500	-	-
\$ 15,485	\$ 199,185	\$ 566	\$ 11,897	\$ 378,723	\$ 167

Gratiot County, Michigan

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended September 30, 2007

	Special Revenue		Capital Projects
	Public Improvement - General	Public Improvement - Central Dispatch	Construction Fund
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and permits	-	-	-
Intergovernmental			
Federal/State	-	-	-
Local	5,000	-	-
Charges for services	-	-	-
Fines and forfeits	-	-	-
Interest and rents	-	3,419	12,942
Other	12,772	-	6,273
<b>TOTAL REVENUES</b>	<b>17,772</b>	<b>3,419</b>	<b>19,215</b>
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Health and welfare	-	-	-
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Capital outlay	304,990	-	238,742
Debt service	100,833	-	-
<b>TOTAL EXPENDITURES</b>	<b>405,823</b>	<b>-0-</b>	<b>238,742</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(388,051)</b>	<b>3,419</b>	<b>(219,527)</b>
OTHER FINANCING SOURCES (USES)			
Capital lease proceeds	241,938	-	-
Transfers in	143,797	161,753	-
Transfers out	-	-	(161,753)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>385,735</b>	<b>161,753</b>	<b>(161,753)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,316)</b>	<b>165,172</b>	<b>(381,280)</b>
Fund balances (deficits), beginning of year	17,849	-	569,421
Fund balances, end of year	<u>\$ 15,533</u>	<u>\$ 165,172</u>	<u>\$ 188,141</u>

Debt Service					Total Nonmajor Governmental Funds
Mental Health Debt	Building Authority - Jail	Courthouse Renovation	Fairground Improvement	2005 G.O. Bonds	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,201,641
-	-	-	-	-	114,364
-	-	-	-	-	1,896,088
-	-	-	-	104,198	109,198
-	-	-	-	-	173,542
-	-	-	-	-	4,645
-	45	54	-	7	113,261
-	-	-	-	-	285,636
-0-	45	54	-0-	104,205	3,898,375
-	-	-	-	-	525,911
-	-	-	-	-	508,665
-	-	-	-	-	2,954,589
-	-	-	-	-	112,709
-	-	-	-	-	188,743
-	-	-	-	-	543,732
54,954	162,525	208,988	7,745	158,616	717,661
54,954	162,525	208,988	7,745	158,616	5,552,010
(54,954)	(162,480)	(208,934)	(7,745)	(54,411)	(1,653,635)
-	-	-	-	-	241,938
54,954	162,525	208,438	7,745	54,418	1,887,393
-	-	-	-	-	(323,197)
54,954	162,525	208,438	7,745	54,418	1,806,134
-0-	45	(496)	-0-	7	152,499
-	4,289	2,628	-	1,512	1,434,258
\$ -0-	\$ 4,334	\$ 2,132	\$ -0-	\$ 1,519	\$ 1,586,757

Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2007

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Tax Fees and Sale Proceeds	Total
<b>ASSETS</b>					
Current assets					
Cash and cash equivalents	\$ 41,242	\$ 12,952	\$ 19,268	\$ 131,506	\$ 204,968
Accounts receivable	-	3,204	-	593	3,797
<b>TOTAL ASSETS</b>	<b>41,242</b>	<b>16,156</b>	<b>19,268</b>	<b>132,099</b>	<b>208,765</b>
<b>LIABILITIES</b>					
Current liabilities					
Accounts payable	139	1,740	-	-	1,879
Accrued payroll	1,402	-	-	-	1,402
<b>TOTAL LIABILITIES</b>	<b>1,541</b>	<b>1,740</b>	<b>-0-</b>	<b>-0-</b>	<b>3,281</b>
<b>NET ASSETS</b>					
Unrestricted	<u>\$ 39,701</u>	<u>\$ 14,416</u>	<u>\$ 19,268</u>	<u>\$ 132,099</u>	<u>\$ 205,484</u>

Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2007

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Tax Fees and Sale Proceeds	Total
OPERATING REVENUES					
Charges for services	\$ 47,583	\$ 30,596	\$ -	\$ 59,219	\$ 137,398
Other revenue	-	25,760	-	9,636	35,396
TOTAL OPERATING REVENUES	47,583	56,356	-0-	68,855	172,794
OPERATING EXPENSES					
Salaries	21,068	-	-	-	21,068
Fringe benefits	9,113	-	-	-	9,113
Contractual services	1,300	-	-	-	1,300
Supplies	547	33,257	-	-	33,804
Communication	207	-	-	-	207
Miscellaneous	2,742	44,231	-	35,729	82,702
TOTAL OPERATING EXPENSES	34,977	77,488	-0-	35,729	148,194
OPERATING INCOME (LOSS)	12,606	(21,132)	-0-	33,126	24,600
NONOPERATING REVENUES					
Interest revenue	2,146	-	934	5,946	9,026
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES (USES)	14,752	(21,132)	934	39,072	33,626
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	1,441	-	1,441
Transfers out	(3,000)	-	-	-	(3,000)
TOTAL OTHER FINANCING SOURCES (USES)	(3,000)	-0-	1,441	-0-	(1,559)
NET CHANGE IN NET ASSETS	11,752	(21,132)	2,375	39,072	32,067
Net assets, beginning of year	27,949	35,548	16,893	93,027	173,417
Net assets, end of year	\$ 39,701	\$ 14,416	\$ 19,268	\$ 132,099	\$ 205,484



Gratiot County, Michigan

Nonmajor Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2007

	Soil Erosion Inspection	Jail Commissary	Principal Residence Denial Interest	Tax Fees and Sale Proceeds	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts from customers	\$ 47,583	\$ 53,152	\$ 56	\$ 69,758	\$ 170,549
Cash paid to suppliers	(5,591)	(78,720)	-	(35,729)	(120,040)
Cash paid to employees	(30,347)	-	-	-	(30,347)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>11,645</b>	<b>(25,568)</b>	<b>56</b>	<b>34,029</b>	<b>20,162</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers in	-	-	1,441	-	1,441
Transfers out	(3,000)	-	-	-	(3,000)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>(3,000)</b>	<b>-0-</b>	<b>1,441</b>	<b>-0-</b>	<b>(1,559)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Maturity of investments	-	-	16,000	75,000	91,000
Interest revenue	2,146	-	934	5,946	9,026
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>2,146</b>	<b>-0-</b>	<b>16,934</b>	<b>80,946</b>	<b>100,026</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>10,791</b>	<b>(25,568)</b>	<b>18,431</b>	<b>114,975</b>	<b>118,629</b>
Cash and cash equivalents, beginning of year	30,451	38,520	837	16,531	86,339
Cash and cash equivalents, end of year	<u>\$ 41,242</u>	<u>\$ 12,952</u>	<u>\$ 19,268</u>	<u>\$ 131,506</u>	<u>\$ 204,968</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating Income (loss)	\$ 12,606	\$ (21,132)	\$ -	\$ 33,126	\$ 24,600
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
(Increase) decrease in receivables	-	(3,204)	56	903	(2,245)
(Decrease) in accounts payable	(795)	(1,232)	-	-	(2,027)
(Decrease) in accrued liabilities	(166)	-	-	-	(166)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u><b>\$ 11,645</b></u>	<u><b>\$ (25,568)</b></u>	<u><b>\$ 56</b></u>	<u><b>\$ 34,029</b></u>	<u><b>\$ 20,162</b></u>

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

September 30, 2007

	Fringe Benefits	Tile Fund	Flexible Spending	Total
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 89	\$ 7,848	\$ 3,033	\$ 10,970
Inventories	-	13,363	-	13,363
Accounts receivable	243,416	-	-	243,416
Prepays	27,947	-	-	27,947
<b>TOTAL ASSETS</b>	<b>271,452</b>	<b>21,211</b>	<b>3,033</b>	<b>295,696</b>
<b>LIABILITIES</b>				
Current liabilities				
Due to other funds	-	-	1,000	1,000
<b>NET ASSETS</b>				
Unrestricted	<u>\$ 271,452</u>	<u>\$ 21,211</u>	<u>\$ 2,033</u>	<u>\$ 294,696</u>

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended September 30, 2007

	Fringe Benefits	Tile Fund	Flexible Spending	Total
OPERATING REVENUES				
Charges for services	\$ 2,021,557	\$ -	\$ -	\$ 2,021,557
Intergovernmental - local	-	39,409	-	39,409
Other revenue	-	2,669	28,335	31,004
TOTAL OPERATING REVENUES	2,021,557	42,078	28,335	2,091,970
OPERATING EXPENSES				
Fringe benefits	2,160,095	-	-	2,160,095
Miscellaneous	-	41,751	32,284	74,035
TOTAL OPERATING EXPENSES	2,160,095	41,751	32,284	2,234,130
OPERATING INCOME (LOSS)	(138,538)	327	(3,949)	(142,160)
NONOPERATING REVENUES				
Interest revenue	119	-	-	119
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES	(138,419)	327	(3,949)	(142,041)
OTHER FINANCING SOURCES				
Transfers in	176,200	-	-	176,200
NET CHANGE IN NET ASSETS	37,781	327	(3,949)	34,159
Net assets, beginning of year	233,671	20,884	5,982	260,537
Net assets, end of year	\$ 271,452	\$ 21,211	\$ 2,033	\$ 294,696

Gratiot County, Michigan

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended September 30, 2007

	Fringe Benefits	Tile Fund	Flexible Spending	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from users	\$ 1,794,349	\$ 42,078	\$ 28,335	\$ 1,864,762
Cash paid to suppliers	-	(44,812)	(31,784)	(76,596)
Cash paid for employee benefits	(2,091,458)	-	-	(2,091,458)
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>(297,109)</b>	<b>(2,734)</b>	<b>(3,449)</b>	<b>(303,292)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers in	176,200	-	-	176,200
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest revenue	119	-	-	119
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(120,790)</b>	<b>(2,734)</b>	<b>(3,449)</b>	<b>(126,973)</b>
Cash and cash equivalents, beginning of year	120,879	10,582	6,482	137,943
Cash and cash equivalents, end of year	<u>\$ 89</u>	<u>\$ 7,848</u>	<u>\$ 3,033</u>	<u>\$ 10,970</u>
<b>Reconciliation of operating income (loss) to net cash (used) by operating activities</b>				
Operating income (loss)	\$ (138,538)	\$ 327	\$ (3,949)	\$ (142,160)
Adjustments to reconcile operating income (loss) to net cash (used) by operating activities				
(Increase) in receivables	(227,208)	-	-	(227,208)
Decrease in prepaids	178,394	-	-	178,394
(Decrease) in accounts payable	(21,841)	(3,061)	-	(24,902)
(Decrease) in accrued liabilities	(87,916)	-	-	(87,916)
Increase in due to other funds	-	-	500	500
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b><u>\$ (297,109)</u></b>	<b><u>\$ (2,734)</u></b>	<b><u>\$ (3,449)</u></b>	<b><u>\$ (303,292)</u></b>

Gratiot County, Michigan

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

September 30, 2007

	Agency Funds		
	Trust and Agency	Library Fund (Penal Fines)	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,283,990	\$ 101,638	\$ 1,385,628
<b>LIABILITIES</b>			
Undistributed collections payable	\$ -	\$ 101,638	\$ 101,638
Defendant bonds payable	51,134	-	51,134
Due to other governmental units	1,097,431	-	1,097,431
Due to individuals and agencies	135,425	-	135,425
<b>TOTAL LIABILITIES</b>	<b>\$ 1,283,990</b>	<b>\$ 101,638</b>	<b>\$ 1,385,628</b>

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - DRAINAGE DISTRICTS

September 30, 2007

	Debt Service	Capital	
	Drain Debt	Regular Drain	Revolving Drain
ASSETS			
Cash and cash equivalents	\$ -	\$ 573,388	\$ 48,953
Accounts receivable	-	1,781	-
Special assessments receivable	-	1,301,125	-
Due from other funds	-	-	290,977
TOTAL ASSETS	\$ -0-	\$ 1,876,294	\$ 339,930
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ 73,077	\$ 15,461
Advances from other governmental units	-	-	292,528
Due to other funds	-	300,641	-
Deferred revenue	-	1,301,125	-
TOTAL LIABILITIES	-0-	1,674,843	307,989
FUND BALANCES			
Fund balances			
Unreserved			
Designated for capital expenditures	-	201,451	31,941
TOTAL LIABILITIES AND FUND BALANCES	\$ -0-	\$ 1,876,294	\$ 339,930

<u>Projects</u>	
<u>Revolving</u>	
<u>Drain</u>	
<u>Maintenance</u>	<u>Total</u>
\$ 2,772	\$ 625,113
-	1,781
-	1,301,125
9,664	300,641
<u>\$ 12,436</u>	<u>\$ 2,228,660</u>

\$ 626	\$ 89,164
-	292,528
-	300,641
-	1,301,125
626	1,983,458

11,810	245,202
<u>\$ 12,436</u>	<u>\$ 2,228,660</u>

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - DRAINAGE DISTRICTS

September 30, 2007

**Total fund balance - governmental funds** **\$ 245,202**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 7,208,795	
Accumulated depreciation is	<u>(1,303,469)</u>	
Capital assets, net		5,905,326

Long-term receivables are not available to pay for current period expenditures  
and are therefore deferred in the funds. These consist of:

Deferred revenue	1,301,125
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Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	2,271,941	
Accrued interest payable	<u>37,175</u>	
		<u>(2,309,116)</u>

**Net assets of governmental activities** **\$ 5,142,537**



Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - DRAINAGE DISTRICTS

Year Ended September 30, 2007

	Debt Service	Capital	
	Drain Debt	Regular Drain	Revolving Drain
REVENUES			
Charges for services	\$ -	\$ 13,000	\$ -
Intergovernmental - local	-	108,091	-
Interest	-	44,002	1,785
Other			
Special assessments	-	730,238	-
Miscellaneous	-	1,556	-
<b>TOTAL REVENUES</b>	<b>-0-</b>	<b>896,887</b>	<b>1,785</b>
EXPENDITURES			
Public works	-	1,133,547	416,559
Debt service			
Principal	417,074	57,000	-
Interest and fiscal charges	59,328	21,413	-
<b>TOTAL EXPENDITURES</b>	<b>476,402</b>	<b>1,211,960</b>	<b>416,559</b>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(476,402)</b>	<b>(315,073)</b>	<b>(414,774)</b>
OTHER FINANCING SOURCES (USES)			
Transfer in	476,402	59,408	458,764
Transfer out	-	(948,590)	(64,758)
Long-term note proceeds	-	815,894	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>476,402</b>	<b>(73,288)</b>	<b>394,006</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-0-</b>	<b>(388,361)</b>	<b>(20,768)</b>
Fund balances, beginning of year	-	107,028	52,709
Prior period adjustment	-	482,784	-
<b>Fund balances, end of year</b>	<b>\$ -0-</b>	<b>\$ 201,451</b>	<b>\$ 31,941</b>

<u>Projects</u>		
<u>Revolving</u>		
<u>Drain</u>		
<u>Maintenance</u>	<u>Total</u>	
\$ 5,070	\$ 18,070	
-	108,091	
3,080	48,867	
-	730,238	
-	1,556	
8,150	906,822	
34,610	1,584,716	
-	474,074	
-	80,741	
34,610	2,139,531	
(26,460)	(1,232,709)	
28,272	1,022,846	
(9,498)	(1,022,846)	
-	815,894	
18,774	815,894	
(7,686)	(416,815)	
19,496	179,233	
-	482,784	
\$ 11,810	\$ 245,202	

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES - DRAINAGE DISTRICTS

Year Ended September 30, 2007

**Net change in fund balances - total governmental funds** **\$ (416,815)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,119,022	
Depreciation expense	<u>(169,602)</u>	
Excess of capital outlay over depreciation expense		949,420

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period, these amounts consist of:

Increase in deferred revenue	549,253
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt proceeds	(815,894)	
Bond principal retirement	<u>474,074</u>	
		(341,820)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	<u>(12,236)</u>
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**Change in net assets of governmental activities** **\$ 727,802**

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - BOARD OF PUBLIC WORKS

September 30, 2007

	Debt Service		
	Pompeii Sewer	Perrinton Water	Total
ASSETS			
Cash and cash equivalents	\$ 4	\$ 310	\$ 314
FUND BALANCES			
Fund balances			
Unreserved			
Undesignated, reported in Debt Service funds	\$ 4	\$ 310	\$ 314

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - BOARD OF PUBLIC WORKS

September 30, 2007

<b>Total fund balance - governmental funds</b>	<b>\$</b>	<b>314</b>
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Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term receivables are not available to pay for current period  
expenditures and therefore are not reported as assets in the funds.  
Long-term receivables at year-end consist of:

Lease receivable	414,093
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Long-term liabilities are not due and payable in the current period  
and therefore are not reported as liabilities in the funds.  
Long-term liabilities at year-end consist of:

Accrued interest payable	9,093	
Direct county obligations	<u>405,000</u>	
		<u>(414,093)</u>

<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>314</u></b>
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Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BOARD OF PUBLIC WORKS

Year Ended September 30, 2007

	Debt Service		
	Pompeli Sewer	Perrinton Water	Total
REVENUES			
Intergovernmental - local	\$ 25,625	\$ 38,633	\$ 64,258
Interest	4	5	9
TOTAL REVENUES	25,629	38,638	64,267
EXPENDITURES			
Debt service			
Principal	10,000	30,000	40,000
Interest and fiscal charges	15,625	8,633	24,258
TOTAL EXPENDITURES	25,625	38,633	64,258
NET CHANGE IN FUND BALANCES	4	5	9
Fund balances, beginning of year	-	305	305
Fund balances, end of year	\$ 4	\$ 310	\$ 314

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES - BOARD OF PUBLIC WORKS

Year Ended September 30, 2007

**Net change in fund balances - total governmental funds** **\$ 9**

Amounts reported for governmental activities in the statement of activities are different because:

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Lease proceeds	(40,733)	
Bond principal retirement	<u>40,000</u>	
		(733)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>733</u>
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**Change in net assets of governmental activities** **\$ 9**

Gratiot County, Michigan

Component Unit Funds

COMBINING BALANCE SHEET - CENTRAL DISPATCH AUTHORITY

September 30, 2007

	Special Revenue		
	E-911	Phase II Upgrade	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 82,415	\$ 207,629	\$ 290,044
Accounts receivable	53,915	104	54,019
Due from other governmental units	-	34,202	34,202
Prepays	85,313	-	85,313
<b>TOTAL ASSETS</b>	<b>\$ 221,643</b>	<b>\$ 241,935</b>	<b>\$ 463,578</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	\$ 6,300	\$ -	\$ 6,300
Accrued liabilities	14,847	-	14,847
<b>TOTAL LIABILITIES</b>	<b>21,147</b>	<b>-0-</b>	<b>21,147</b>
<b>FUND BALANCES</b>			
Reserved for prepaids	85,313	-	85,313
Unreserved			
Undesignated	115,183	241,935	357,118
<b>TOTAL FUND BALANCE</b>	<b>200,496</b>	<b>241,935</b>	<b>442,431</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 221,643</b>	<b>\$ 241,935</b>	<b>\$ 463,578</b>



Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - CENTRAL DISPATCH AUTHORITY

September 30, 2007

**Total fund balance - governmental fund** **\$ 442,431**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	\$ 294,204	
Accumulated depreciation is	<u>(137,554)</u>	
Capital assets, net		<u>156,650</u>
<b>Net assets of governmental activities</b>		<b><u><u>\$ 599,081</u></u></b>

Gratiot County, Michigan

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - CENTRAL DISPATCH AUTHORITY

Year Ended September 30, 2007

	Special Revenue		
	E-911	Phase II Upgrade	Total
REVENUES			
Charges for services - user charges	\$ 574,771	\$ 154,475	\$ 729,246
Interest	4,690	16,134	20,824
TOTAL REVENUES	579,461	170,609	750,070
EXPENDITURES			
Current			
Public safety	706,263	192,923	899,186
EXCESS OF REVENUES (UNDER) EXPENDITURES	(126,802)	(22,314)	(149,116)
OTHER FINANCING SOURCES (USES)			
Transfers in	103,154	-	103,154
Transfers out	-	(103,154)	(103,154)
TOTAL OTHER FINANCING SOURCES (USES)	103,154	(103,154)	-0-
NET CHANGE IN FUND BALANCES	(23,648)	(125,468)	(149,116)
Fund balances, beginning of year	224,144	367,403	591,547
Fund balances, end of year	\$ 200,496	\$ 241,935	\$ 442,431

Gratiot County, Michigan

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF ACTIVITIES - CENTRAL DISPATCH AUTHORITY

Year Ended September 30, 2007

**Net change in fund balances - total governmental funds** **\$ (149,116)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 167,839	
Depreciation expense	<u>(11,189)</u>	
Excess of capital outlay over depreciation expense		<u>156,650</u>
<b>Change in net assets of governmental activities</b>		<u><b>\$ 7,534</b></u>

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Gratiot County, Michigan as of and for the year ended September 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated March 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gratiot County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gratiot County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gratiot County's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Gratiot County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Gratiot County's financial statements that is more than inconsequential will not be prevented or detected by Gratiot County's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the proper recognition accounts payable, capital assets, and beginning fund balance were proposed by the auditors. These misstatements were not detected by the County's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the County's general ledger.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

## 2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

**Effect:** Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the County's internal controls.

**Recommendation:** We recommend that the County take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

**Corrective Action Response:** The County will work toward having all material journal entries completed before auditing fieldwork commences in the future.

## 2007-2 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

**Condition:** As part of the audit process, the County, as well as most governments, has historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to have management perform this task internally. Under the new auditing standards, this is now considered a control deficiency.

**Criteria:** Governmental entities are required to issue financial statements that are prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). Responsibility for the financial statements rests with the County's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

**Effect:** The County relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the County's internal controls. By definition, independent auditors cannot be part of the County's internal controls.

**Recommendation:** We recommend the County consider obtaining additional training for the appropriate members of management to assure that they are able to fully understand the requirements of preparing GAAP financial statements. While this understanding is essential for management to be able to accept responsibility for the amounts and disclosures included in the GAAP financial statements, the County should consider the costs and benefits of obtaining the additional training.

**Corrective Action Response:** Management of the County will continue to look for opportunities to increase our understanding of the requirements of preparing GAAP financial statements. However, at this time we believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing for future years.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described above as 2007-1 is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gratiot County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which are described below.

### 2007-3 UNFAVORABLE BUDGET VARIANCES

Condition: As noted in the annual financial statements, some of the budgeted activities of the County exceeded the amounts appropriated. The variances noted were in the General Fund and Revenue Sharing Reserve Special Revenue Fund.

Criteria: The Uniform Budgeting and Accounting Act (Public Act 621 of 1978) requires the County to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined." The Act also states that "the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body." The County adopted the budget for the General Fund at the activity level and the total expenditure level for the Special Revenue funds.

Effect: The County is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the County monitor expenditures against adopted budgets in all applicable funds and make appropriated budget adjustments as needed.

Corrective Action Response: Management of the County is currently reviewing and making modification to our procedures related to budgetary compliance in accordance with State law.

### 2007-4 PROCEDURES RELATED TO CASH DISBURSEMENTS

Condition: During our testing of a sample of thirty (30) cash disbursements, we noted that nine (9) of thirty (30) invoices paid were not defaced (stamped paid and stapled to check stub) even though all other matters related to these disbursements appeared appropriate and they were allowable expenditures. In addition, it was noted that the account classification did not appear accurate for one (1) of the thirty (30) invoices. All other matters related to this misclassified disbursement appeared appropriate and it was an allowable expenditure, it was just miscoded to the incorrect expenditure line-item.

Criteria: All invoices should be defaced when paid and expenditures should be posted to the appropriate accounts.

Effect: The County is potentially exposed to an increased risk of inaccurate financial reporting.

Recommendation: We recommend the County review its procedures related to the cash disbursement process and ensure that procedures adopted by the Board are consistently followed.

Corrective Action Response: Management of the County is currently reviewing disbursement procedures to assure issues such as these do not occur in the future.

Gratiot County's responses to the findings identified in our audit are described above. We did not audit Gratiot County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Board of Commissioners of Gratiot County, others within the County, and the Federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 4, 2008

**Gratiot County, Michigan**

**SUPPLEMENTARY INFORMATION  
TO FINANCIAL STATEMENTS  
(FEDERAL AWARDS)**

**September 30, 2007**

Gratiot County, Michigan

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

Compliance

We have audited the compliance of Gratiot County with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to the major Federal program for the year ended September 30, 2007. Gratiot County's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal program is the responsibility of Gratiot County's management. Our responsibility is to express an opinion on Gratiot County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major Federal programs occurred. An audit includes examining, on a test basis, evidence about Gratiot County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Gratiot County's compliance with those requirements.

In our opinion, Gratiot County complied, in all material respects, with the requirements referred to above that are applicable to the major Federal program for the year ending September 30, 2007.

Internal Control Over Compliance

The management of Gratiot County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Gratiot County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Gratiot County's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as identified above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregated discretely presented component units, each major fund, and the aggregate remaining fund information of Gratiot County as of and for the year ended September 30, 2007, and have issued our report thereon dated March 4, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Gratiot County's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Commissioners and management of Gratiot County, others within the County, the pass-through grantors, and the Federal awarding agencies and is not intended to be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 4, 2008

Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended September 30, 2007

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT Passed through Michigan State Housing Development Authority Community Development Block Grant (CDBG) Program State's Program 06/07 (Housing)	14.228	MSC-2005-0782-HOA	\$ 200,000	\$ 47,341	\$ 71,819	\$ 71,819
U.S. DEPARTMENT OF JUSTICE Passed through Michigan Department of Human Services Juvenile Accountability Incentive Block Grant 2007 Basic Grant	16.523	N/A	13,750	-	13,750	13,750
U.S. DEPARTMENT OF TRANSPORTATION Passed through Michigan Department of State Police Emergency Management Division 05/06 HMEP	20.703	N/A	2,325	-	2,074	2,074
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Passed through State Department of Office on Services to the Aging and Region 7 Area Agency on Aging Title IIIB Special Programs for the Aging <sup>(d)</sup> (Chore, Personal Care, Case Coordination and Support, Senior Center, Repair, Personal Care) FY 06/07	93.044	N/A	52,796	-	52,796	52,796

Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2007

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES - CONTINUED Passed through State Department of Office on Services to the Aging and Region 7 Area Agency on Aging Title IIIB - continued Title IIIE National Family Caregiver Support (Caregiver Training) FY 06/07	93.052	N/A	\$ 15,207	\$ -	\$ 15,207	\$ 15,207
Medical Assistance Program <sup>(d)</sup> Point of Service Waiver	93.778	N/A	21,826	-	21,826	21,826
MMAP FY 06/07	93.779	N/A	2,364	-	2,364	2,364
Passed through Michigan Department of Human Services Promoting Safe & Stable Families 06/07 Grant	93.556	SFSC-04-29004-4	20,005	-	20,005	20,005
Child Support Enforcement <sup>(a)(c)</sup> (Title IV-D) Cooperative Reimbursement - Friend of the Court 06/07	93.563	CS/FOC-07-29001	369,640	-	330,783	330,783
Cooperative Reimbursement - Prosecuting Attorney 06/07		CS/PA-07-29002	54,516	-	48,202	48,202
Incentive Payments <sup>(b)</sup> 2004-05 Regular		N/A	110,193	97,571	12,622	12,622
2005-06 Regular		N/A	81,476	66,122	15,354	15,354
2006-07 Regular		N/A	<u>64,380</u>	<u>-</u>	<u>64,380</u>	<u>64,380</u>
			680,205	163,693	471,341	471,341

Gratiot County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended September 30, 2007

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Restated Program Award Amount</u>	<u>Restated (Memo Only) Prior Year Expenditures</u>	<u>Current Year</u>	
					<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF HOMELAND SECURITY						
Passed through Michigan Department of Natural Resources						
2007 Boating Safety	97.012	N/A	\$ 1,420	\$ -	\$ 1,420	\$ 1,420
Passed through Michigan Department Of State Police						
Emergency Management Performance Grant	97.042	N/A	11,827	11,317	216	216
FY 2006 EMPG		N/A	<u>11,460</u>	<u>-</u>	<u>11,460</u>	<u>11,460</u>
			<u>23,287</u>	<u>11,317</u>	<u>11,676</u>	<u>11,676</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,033,185</u>	<u>\$ 222,351</u>	<u>\$ 684,278</u>	<u>\$ 684,278</u>

Gratiot County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2007

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Gratiot County, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements, which are reconciled in Note C.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a)-(d) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursement of these contracts is passed through the State Department of Human Services (DHS). The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on 66% of Title IV-D eligible expenditures for the applicable grants. The entire amount paid by DHS for the reimbursed expenditures is considered Federal.
- (b) The reimbursements for the IV-D Incentive Payments Program are based on support payments collected. Expenditures have been reported to the extent of earned revenues and are 100% Federal.
- (c) Denotes program tested as "major program".
- (d) The amounts reported on the Schedule of Expenditures of Federal Awards passed through State Department of Office of Services to the Aging represent the Federal portion at 100% of the respective amounts except for the following percentages of the applicable grant expenditures:

Personal Care IIIB	10.35 %
Respite IIIB	15.02
Homemaking IIIB	19.59
Waiver	56.18

**NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The following reconciles the Federal revenues reported in the September 30, 2007 basic financial statements to the expenditures of the County administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	Federal/ State Revenue	Less State Revenue	Adjustments	Federal Expenditures
PRIMARY GOVERNMENT				
GENERAL FUND				
CRP - Prosecuting Attorney	\$ 48,901	\$( 699 )	\$ -	\$ 48,202
Emergency management	16,161	( 2,411 )	-	13,750
Other programs	852,389	( 852,389 )	-	-0-
TOTAL GENERAL FUND	917,451	( 855,499 )	-0-	61,952

Gratiot County, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

September 30, 2007

**NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED**

	<u>Federal/ State Revenue</u>	<u>Less State Revenue</u>	<u>Adjustments</u>	<u>Federal Expenditures</u>
<b>SPECIAL REVENUE FUNDS</b>				
Friend of the Court	\$ 427,726	\$( 4,587 )	\$ -	\$ 423,139
Commission on Aging	288,955	( 196,762 )	-	92,193
CDBG	49,944	-	21,875 <sup>(1)</sup>	71,819
Child Care Juvenile Fund	385,034	( 351,279 )	-	33,755
Marine Safety	1,420	-	-	1,420
Other Programs	<u>743,009</u>	<u>( 743,009 )</u>	<u>-</u>	<u>-0-</u>
<b>TOTAL SPECIAL REVENUE FUNDS</b>	<u>1,896,088</u>	<u>( 1,295,637 )</u>	<u>-0-</u>	<u>509,860</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 2,813,539</u>	<u>\$( 2,151,136 )</u>	<u>\$ 21,875</u>	<u>\$ 684,278</u>

- <sup>(1)</sup> The adjustment related to the CDBG Fund represents amounts that had been contractually committed to projects as of the end of the current year, but not yet expended, \$21,875. The funding source considers these funds expended in the year in which they were committed which does not meet the expenditure recognition criteria of generally accepted accounting principles (GAAP). Therefore, the amount of the adjustment represents the amounts related to the difference between the funding source definition of expended and the recognition criteria of generally accepted accounting principles (GAAP). The \$21,875 is recognized in the Schedule of Expenditures of Federal Awards as of September 30, 2007, but will be recognized in the audited financial statements as revenue as of September 30, 2008, in accordance with GAAP.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners  
of Gratiot County  
Ithaca, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of Gratiot County, Michigan as of and for the year ended September 30, 2007, which collectively comprise Gratiot County's basic financial statements and have issued our report thereon dated March 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Gratiot County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gratiot County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider the deficiencies described below as Findings 2007-1 and 2007-2 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that Finding 2007-1 described in the schedule of findings and questioned costs to be a material weakness.



### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gratiot County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2007-3 and 2007-4.

Gratiot County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Gratiot County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Commissioners of Gratiot County, others within the County, and the Federal award agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

March 4, 2008

Gratiot County, Michigan  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended September 30, 2007

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	<u>  X  </u>	Yes	<u>      </u>	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u>  X  </u>	Yes	<u>      </u>	None reported
Noncompliance material to financial statements noted?	<u>      </u>	Yes	<u>  X  </u>	No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?	<u>      </u>	Yes	<u>  X  </u>	No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u>      </u>	Yes	<u>  X  </u>	None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133?        Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.563	Child Support Enforcement (Title IV-D)

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   Yes        No

**Section II - Financial Statement Findings**

**2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS**

**Condition:** Material journal entries for the proper recognition accounts payable, capital assets, and beginning fund balance were proposed by the auditors. These misstatements were not detected by the County's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the County's general ledger.

**Criteria:** Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the notes to the financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

Gratiot County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2007

Section II - Financial Statement Findings - continued

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2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the County's internal controls.

Recommendation: We recommend that the County take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: The County will work toward having all material journal entries completed before auditing fieldwork commences in the future.

2007-2 PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH GAAP

Condition: As part of the audit process, the County, as well as most governments, has historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to have management perform this task internally. Under the new auditing standards, this is now considered a control deficiency.

Criteria: Governmental entities are required to issue financial statements that are prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). Responsibility for the financial statements rests with the County's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

Effect: The County relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the County's internal controls. By definition, independent auditors cannot be part of the County's internal controls.

Recommendation: We recommend the County consider obtaining additional training for the appropriate members of management to assure that they are able to fully understand the requirements of preparing GAAP financial statements. While this understanding is essential for management to be able to accept responsibility for the amounts and disclosures included in the GAAP financial statements, the County should consider the costs and benefits of obtaining the additional training.

Corrective Action Response: Management of the County will continue to look for opportunities to increase our understanding of the requirements of preparing GAAP financial statements. However, at this time we believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing for future years.

2007-3 UNFAVORABLE BUDGET VARIANCES

Condition: As noted in the annual financial statements, some of the budgeted activities of the County exceeded the amounts appropriated. The variances noted were in the General Fund and Revenue Sharing Reserve Special Revenue Fund.

Gratiot County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended September 30, 2007

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**Section II - Financial Statement Findings - continued**

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**2007-3 UNFAVORABLE BUDGET VARIANCES - CONTINUED**

**Criteria:** The Uniform Budgeting and Accounting Act (Public Act 621 of 1978) requires the County to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined." The Act also states that "the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body." The County adopted the budget for the General Fund at the activity level and the total expenditure level for the Special Revenue funds.

**Effect:** The County is not in compliance with Public Act 621 of 1978, as amended.

**Recommendation:** We recommend the County monitor expenditures against adopted budgets in all applicable funds and make appropriated budget adjustments as needed.

**Corrective Action Response:** Management of the County is currently reviewing and making modification to our procedures related to budgetary compliance in accordance with State law.

**2007-4 PROCEDURES RELATED TO CASH DISBURSEMENTS**

**Condition:** During our testing of a sample of thirty (30) cash disbursements, we noted that nine (9) of thirty (30) invoices paid were not defaced (stamped paid and stapled to check stub) even though all other matters related to these disbursements appeared appropriate and they were allowable expenditures. In addition, it was noted that the account classification did not appear accurate for one (1) of the thirty (30) invoices. All other matters related to this disbursement appeared appropriate and it was an allowable expenditure, it was just miscoded to the incorrect expenditure line-item.

**Criteria:** All invoices should be defaced when paid and expenditures should be posted to the appropriate accounts.

**Effect:** The County is potentially exposed to an increased risk of inaccurate financial reporting.

**Recommendation:** We recommend the County review its procedures related to the cash disbursement process and ensure that procedures adopted by the Board are consistently followed.

**Corrective Action Response:** Management of the County is currently reviewing disbursement procedures to assure issues such as these do not occur in the future.

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**Section III - Federal Award Findings and Questioned Costs**

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None

Gratiot County, Michigan  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended September 30, 2007

There were no findings disclosed in the prior year.